National Bank of Rwanda

Banki Nkuru y'u Rwanda

QUARTERLY INFLATION REPORT

First Quarter, 2017

May 2017

EXECUTIVE SUMMARY

According to the IMF April 2017 projections, world GDP growth is expected to reach 3.5% in 2017 from 3.1% achieved in 2016, buoyed by the anticipated recovery in resource-rich countries, on the back of the increase in commodity prices, and the normalization of economic activity in previously distressed large economies. Advanced economies are expected to grow by 2.0% from 1.7% in 2016 and emerging and developing economies by 4.5% against 4.1% in 2016.

Globally, inflation increased in recent months reflecting the rebound in oil prices. In advanced economies, headline inflation rose but core inflation remained below Central bank target as aggregate demand has remained subdued following persistently negative output gap and subdued wage pressures. By end 2017, inflation in developed countries is expected to reach 2.0% higher than 1.7% previously forecasted from 0.8% in 2016 pointing to continuous accommodative monetary policy. USA however, started to increase its fund rate on improving economic conditions and expects to continue the move through 2019.

The Rwandan economy recorded a good performance in 2016 despite a number of challenges resulting from both domestic and external factors. The real GDP grew by 5.9% against 8.9% recorded in 2015, driven by services (+7.1%) followed by industry (+6.8%) and agriculture (+3.8%). Agriculture sector's performance was constrained by unfavorable weather conditions in form of floods and droughts. The industry sector was bolstered by mining and quarrying (+10.4%) and electricity (+15.8%).

In 2016Q4, the real GDP grew by 2.3% in 2016Q4 from 5.3% and 10.0% recorded in 2016Q3, and 2015Q4, respectively, mainly driven by the service sector (+4.0%) and agriculture sector (+3.0). The industry sector did not perform well in 2016Q4 (+1.0%) compared to the same quarter of the previous year (+16.0%) due to the decline in construction sector which was the main contributor of the industry sector (+44%) in 2016Q4. The low performance was also attributed to the mining and quarrying sub-sector which recorded a negative growth (-1.0%) as a result of falling international prices basically for metals and minerals.

Leading economic indicators of economic activities signal that economic activities were healthier in 2017Q1 compared to the last quarter of 2016. The CIEA, in real terms, grew by 6.1% in 2017Q1 higher than 5.8% recorded in 2016Q4 but lower than 15.1% realized in 2016Q1. The total turnovers of industry and services sectors increased by 14.7% in 2017Q1 up from 6.9% and 12.1% registered in 2016Q4 and 2016Q1 respectively. Total new loans to the private sector increased by 7.1% in 2017Q1 from an increase of 12.0% in the corresponding period of the previous year. Between March and December, outstanding loans increased by 4.9% end March 2017 against 3.5% end March 2016. Basing on these positive growth prospects and in the context of global and domestic economic conditions, the Rwandan economy is projected to grow by 6.2% in 2017.

Rwanda's trade deficit reduced by 24.4% in 2017Q1, to a deficit of USD 346.4 million from a deficit of USD 458.2 million in 2016Q1, following an increase in formal exports by 35.3% in value and a decrease in formal imports value by 11.8%. This good performance follows the trend observed in 2016 where the trade deficit reduced by 5.9% as a result of a decrease in formal imports by 2.7% in value compared to an increase in formal exports by 7.1% in value.

In 2017Q1, pressures on the Rwandan Franc have started easing thanks to the improvement in Rwanda's export receipts in line with the continued recovery in commodity prices at the international market. In addition, the import bill is reducing due to increased domestic production of goods, such as cement that previously required a lot of forex to import, the Made-in-Rwanda initiative and the phasing out of some major construction projects. By end March 2017, relative to December 2016, the FRW slightly depreciated by 0.8% against USD, compared to a depreciation of 2.8% on the corresponding date of 2016.

Generally, the main risks to the inflation outlook remain weather-dependent food harvests, exchange rate depreciation and upward revision in the drinks produced by BRALIRWA as well as an increase in local pump prices. The above risks imply that the inflation outlook is expected to range between 6.2% and 7.2% in 2017Q2 and between 5.5% and 6.5% in 2017Q3.

LIST OF ACRONYMS AND ABBREVIATIONS

BNR	: National Bank of Rwanda
CIEA	: Composite Index of Economic Activities
CPS	: Credit to the Private Sector
GDP	: Gross Domestic Product
EAC	: East African Community
ECB	: European Central Bank
IMF	: International Monetary Fund;
KCC	: Kigali Conventional Centre
M3	: Broad money
NCG	: Net Credit to Government
NDA	: Domestic Assets
NFA	: Net Foreign Assets
NISR	: National Institute of Statistics of Rwanda
OPEC	: Organization of the Petroleum Exporting Countries
UK	: United Kingdom
US	: United States
USD	: United States Dollars
WEO	: World Economic Outlook
WTI	: Western Texas Intermediate

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I. GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Economic Developments

The world economy is expected to slightly improve by end 2017 as it is gaining momentum from a moderate growth rate in 2016. Overall, IMF April 2017 projects the world GDP growth at 3.5% in 2017 (up by 0.1% previously forecasted) from 3.1% achieved in 2016. Rising commodity prices are expected to be supportive mostly in resource rich countries and the economic activity expected to normalize in previously distressed large economies. Advanced economies are expected to grow by 2.0% from 1.7% in 2016 and emerging and developing economies by 4.5% against 4.1% in 2016.

Globally, inflation increased in recent months reflecting the rebound in oil prices. In advanced economies, headline inflation rose but core inflation remained below Central bank target on persistently negative output gap and subdued wage pressures. By end 2017, inflation in developed countries is expected to reach 2.0% higher than 1.7% previously forecasted from 0.8% in 2016 pointing to continuous accommodative monetary policy. USA however, started to increase its fund rate on improving economic conditions and expect to continue the move through 2017 and 2018-2019.

1.1.1 Developments in United States

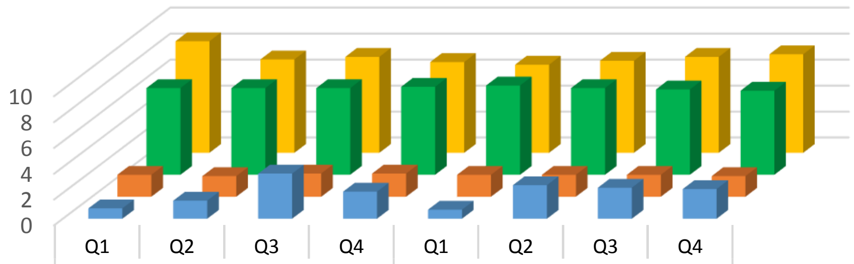
In United States, real GDP growth decelerated to 0.7% in 2017Q1 from 2.1% in 2016Q4 reflecting weaker household consumption and private investment as well as negative contribution from government spending and external trade. For 2017Q2, GDP shall recover to 2.6% on expected positive contributions from personal consumption, private investment, residential and non-residential fixed investment, local as well as state government spending before slowing to 2.4% in 2017Q3. For 2017, US GDP growth rate is expected to pick up to 2.3% from 1.6% in 2016 on waning effect of past lower energy prices and past appreciation of the U.S. dollar.

In USA, annual headline inflation rose to 2.4% in March 2017 from 2.1% in December 2016. Core inflation stood at 2.0%, energy prices rose by 10.9% while food prices increased by 0.5% in March respectively from 2.2%, 9.0% and -0.2% in December 2016. Year-on-year, US inflation was at 2.5% in 2017Q1 and anticipated to remain stable at 2.5% in 2017Q2 and 2017Q3. Responding to rising inflation, strong developments in labor market and positive developments in overall economy, in a meeting held on 14-15 March 2017, the Federal Reserve revised its fund rate to a target range between 0.75% and 1.00% from a range between 0.50% and 0.75%. Meanwhile, the stance remains accommodative to continue further supporting the economy and keep inflation close to the target.

1.1.2 Developments in Eurozone

In Eurozone, economic expansion continued helped mainly by domestic demand, favorable financial conditions and continuous gains in employment. For the second consecutive quarter, real GDP grew by 1.8% in 2016Q4 led mainly by a rebound in fixed investment partly offset by negative contribution from external trade. Growth was moderate to 1.7% in 2017Q1 and expected to keep the same pace in 2017Q2 and 2017Q3. For the whole year 2017, supported by encouraging domestic demand, falling unemployment and a recovery in most peripheral economies, the Eurozone economic growth is expected to stand at 1.7%, same growth as in 2016 as the external demand is likely to dampen positive growth prospects from domestic demand.

Figure 1: Economic growth developments (in %)



	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
USA (QoQ)	0.8	1.4	3.5	2.1	0.7	2.6	2.4	2.3
Euro area (YoY)	1.7	1.6	1.8	1.8	1.7	1.7	1.7	1.6
China (YoY)	6.7	6.7	6.7	6.8	6.9	6.7	6.6	6.5
India (YoY)	8.6	7.2	7.4	7	6.8	7.1	7.4	7.6

Source: BLOOMBERG and IMF, World economic Outlook, April 2017

In Eurozone, inflation was 1.5% in March 2017 from 2.0% in February 2017 but was slightly higher compared to 1.1% realized in December 2016. Energy prices increased less than previously (+7.4% in March against 9.3% in February). On average in 2017Q1, inflation stood at 1.8% yearly and forecasted to go down to 1.6% for the next two quarters. While the economic activity is improving, inflationary pressures remained subdued and the ECB's monetary policy stance needs to stay accommodative to expand economic activities.

1.1.3 Developments in China

Chinese economy improved in 2017Q1 supported by strong supply and demand. Real GDP grew by 6.9% in 2017Q1 from 6.8% in 2016Q4, backed by strong consumption and a rebound in investments. Due to rising uncertainty from external environment such as the likely trade war with United States, interest rate hikes in USA and the situation in Northeast Asia among others, Chinese economy is forecasted to slightly decelerate to 6.7% and 6.6% in 2017Q2 and 2017Q3 respectively. On average in 2017, IMF April 2017 forecasts Chinese GDP growth at 6.6% against 6.7% achieved in 2016, as stimulus may be waning.

Chinese inflation fell sharply to 0.9% in March 2017 from 2.1% in December 2016 due to sharp decline in food prices. For 2017Q1, annual inflation decelerated to 1.4% from 2.2% in 2016Q4 and expected to rise to 1.6% in 2017Q2 and 2.0% in 2017Q3. To support a gradual economic recovery, the monetary policy is expected to remain stable but to gradually be tightened.

1.1.4 Developments in Sub-Saharan Africa and EAC

The Sub-Saharan African economic growth is projected to increase from 1.6% in 2016 to 2.6% in 2017 according to April 2017 IMF forecast. This downward revision was due to subdued growth momentum in the three largest Sub-Saharan economies previously undermined by lower oil prices.

In Sub-Saharan Africa, the impact of drought in some countries and exchange rate pressures on local currencies are likely to fuel inflationary pressures. Headline inflation stood at 11.4% on average in 2016 while projected at 10.7% in 2017 as local currencies will appreciate with recovering commodity exports.

In EAC, growth performance remains strong with exception of Burundi whose economy stagnated in 2016. For the year 2017, a slight improvement is waited for all countries though Kenyan growth rate is likely to slow down due to dry weather conditions. Persistent drought in the region as well as in the horn of Africa is affecting the agriculture GDP.

Table 1: Economic growth in EAC countries (in %)

	2015	2016				Ann. Average		
	Q4	Q1	Q2	Q3	Q4	2015	2016	2017 Proj.
Burundi	-	-	-	-	-	-4.0	-1.0	0.0
Kenya	5.7	5.9	6.2	5.7	5.8	5.6	5.8	5.3
Rwanda	10.0	8.9	7.4	5.3	2.3	8.9	5.9	6.2
Tanzania	9.0	5.5	7.9	6.2	-	7.0	6.6	6.8
Uganda	5.6	4.0	3.2	1.5	1.6	5.0	4.7	5.0

Source: National Bureau of Statistics Websites and IMF WEO, April 2017

In EAC, inflationary pressures have risen following drought related poor performance in agriculture, together with increasing oil prices. Rwanda's inflation rose to 7.7% in March from 7.3% in December 2016 mainly due to an increase in food and non-alcoholic beverages, housing, water, electricity, gas & other fuels, and transport costs. Compared to December 2016, all regional countries recorded high inflation in March 2017 due to growing cost of food items. Inflationary pressures are likely to remain high due to persistent dry conditions in the region and in the horn of Africa in general.

Table 2: Headline inflation in EAC countries (in %)

	2015	2016					2017			2016 Average
	Dec.	Jan.	Mar.	Jun.	Sept.	Dec.	Jan.	Feb.	Mar.	
Uganda	1.8	7.7	6.2	5.9	4.2	5.7	5.9	6.7	6.4	5.5
Kenya	6.0	7.8	6.5	5.8	6.3	6.4	7.0	9.0	10.3	6.2
Tanzania	4.8	6.5	5.4	5.5	4.5	5.0	5.2	5.5	6.4	5.2
Burundi	3.8	6.3	4.3	3.9	7.0	9.6	12.9	20.7	21.1	5.6
Rwanda	2.1	4.5	4.6	5.5	5.8	7.3	7.4	8.1	7.7	5.7

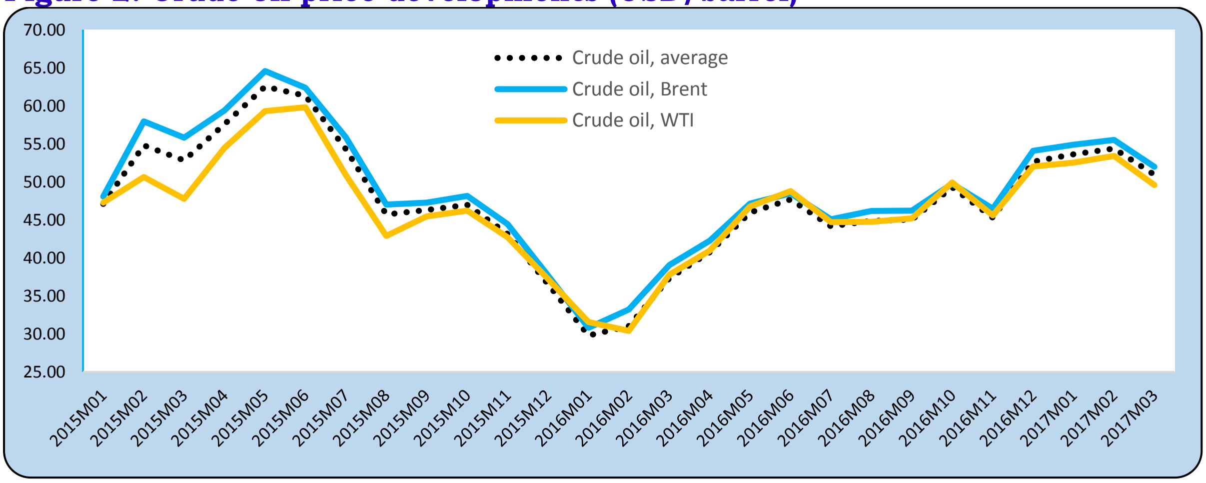
Source: Country Bureaus of Statistics IMF, World Economic Outlook, April 2017

1.2 Recent developments in commodity prices

Global inflation has increased in the recent months reflecting rising commodity prices. The 2016 recovery in commodity prices continued with the year 2017 driven by both energy and non-energy prices. Prices rose by 6.3% and 3.6% for energy and non-energy respectively in 2017Q1 after respective increase of 11.1% and 1.3% in 2016Q4. Year-on-year, energy prices went up by 38.0% in March 2017 after 68.3% in February 2017. On annual basis, non-energy prices rose by 9.3% in March from 14.5% in February 2017.

Among energy, crude oil prices went up by 7.9% in 2017Q1 on the back of positive market momentum following efforts by OPEC and non-OPEC producers to address an oil glut. On monthly basis, oil prices declined by 6.3% in March 2017, its lowest level since November 2016 on rising crude oil production and crude oil stocks in the United States. Nevertheless, supply disruptions offset some of this downward pressures.

Figure 2: Crude oil price developments (USD/barrel)



Source: World Bank

Brent prices rose by 33.0% year-on-year in March 2017 consecutively to an increase of 67.1% in February 2017. In nominal terms, the price of Brent increased to USD 51.97/barrel in March 2017 from USD 39.07/barrel in March 2016.

Prices rose for non-energy in 2017Q1 mostly driven by metals and minerals which increased by 9.8%, fertilizers by 5.4% and partly by agriculture commodity prices which increased by 1.2% in 2017Q1. The increase in prices of metals reflects mainly the rise in prices of base metals (+8.0% in 2017Q1) while prices stabilized somehow for precious metals (0.3% for 2017Q1). Prices of Iron ore (+21.2%), Zinc (+10.5%), copper (+10.6%), Aluminium (+8.2%) and lead (+6.5%) drove this upward trend. Reasons behind these trends are both on supply and demand side.

On supply side, tightness especially for lead and zinc in Asia amid strong demand particularly Chinese demand, increased US expectations about higher infrastructure investments with the new administration as well as improving optimism global economy were some of the main reasons. The supply was also undermined by ore export ban in Indonesia, mines closures for environmental factor or inefficient capacity in China and Philippines.

Agriculture commodity prices moderately went up (+1.2%) in 2017Q1 as an increase in prices of agriculture raw materials (+5.1%) was offset by a decline in prices of beverages (-6.5%). Prices are however scattered across products depending on supply conditions. In 2017Q1, prices of beverages fell, mostly led by declines in prices of cocoa (-16.1%) on ample supply in West Africa, Arabica coffee (-5.6%) on increased production in Columbia and tea on Kolkata auction (-23.1%).

These declines were partly offset by rising prices of Robusta (4.0%) due to supply shortages in Brazil and reduced crop forecasts for Vietnam and Indonesia, and tea Colombo Auction (+4.9%) owing to concerns over adverse weather as well as by a surge in prices of tea in Mombasa Auction (+15.9%) due to drought in Eastern African countries and particularly in Kenya. Tea production fell also in Sri Lanka and in South India. Food prices rose by 1.4% in 2017Q1 driven by increase in prices of grains (+3.6%) and partly by oils and meals (+1.9%) as excess supply eased, especially for grains and vegetable oils.

On average for the whole year 2017, energy prices are expected to increase by 25.7% and non-energy by 4.0%. Particularly, crude oil prices will go up by 28.5% following recent agreement between OPEC and non-OPEC producers to cut production though this effort is counteracted by US shale oil production. Metals prices are projected to increase by 16% due to strong demand in China and supply constraints such as labor strikes and contractual disputes in the case of copper, and environmental and export policies for nickel. Prices will decline by 7.0% for precious metals. Agricultural commodity prices are projected to remain roughly stable in 2017. Increases in oils and meals and raw materials prices are anticipated to be offset by declines in grains (-3.2%) and beverages (-6.4%).

1.3. Financial markets and Foreign Exchange market

In response to persistently low inflation and weak economic activity, markets expect central banks in advanced countries to remain accommodative for longer than previously anticipated with the only exception of United States where policy moves are expected to continue through 2017 and 2018-2019. Short-term deposit rates remained negative in Eurozone and Japan to discourage bank deposits and ensure supportive financial conditions necessary to stimulate the economic recovery.

Table 3: Interest rates developments (in % per annum)

		2015				2016				2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
USA	3-month deposit rate	0.390	0.410	0.450	0.680	0.825	1.018	0.885	1.535	1.430
	10-year interest rate	1.923	2.355	2.037	2.269	1.770	1.470	1.596	2.4443	2.3874
Euro area	3-month deposit rate	-0.020	-0.040	-0.060	-0.085	-0.240	-0.270	-0.280	-0.350	-0.320
	10-year interest rate	0.180	0.764	0.587	0.629	0.150	-0.130	-0.119	0.208	0.328
Japan	3-month deposit rate	0.005	-0.120	0.010	-0.215	-0.080	-0.120	-0.310	-0.440	-0.09
	10-year interest rate	0.505	0.465	0.356	0.265	-0.030	-0.217	-0.089	0.046	0.070
UK	3-month deposit rate	0.550	0.560	0.575	0.575	0.670	0.670	0.560	0.610	0.430
	10-year interest rate	1.576	2.024	1.762	1.960	1.420	0.867	0.746	1.239	1.139

Source: Bloomberg

The 10-year interest rate decelerated as US real GDP growth was lower than expected in 2016Q4 and a weakening economic outlook in the quarter ahead has pared down inflation expectations. In Europe, bond markets in the 2017Q1 were under pressure from a number of factors, continuing the downward trend from 2016Q4.

On the foreign exchange market, the dollar weakened against major currencies due to lower yields in government 10-year bonds. The Euro appreciated due good performance in Germany, the biggest European economy (fall in unemployment rate, rising trade). Compared to December 2016, the US dollar depreciated for the third consecutive month in March 2017 versus its peers. It depreciated by 1.6%, 1.3% and by 4.8% against the pound, the Euro and the Yen respectively. However, the US dollar is expected to strengthen on expected higher prices of US treasury bonds from global economic and political risks.

1.4. Outlook for the global economy

In 2017Q2, global economic growth is expected to keep improving and broad based across country blocs. For the whole year 2017, real GDP growth is expected to improve to 3.5% from 3.1% achieved in 2016. Among advanced economies, US economy is strengthening driven by ongoing strong domestic demand. US GDP growth is projected at 2.6% in 2017Q2 while expected to average 2.3% for the whole year 2017 from 1.6% in 2016. Eurozone economy keeps improving supported by domestic demand, falling unemployment and recovery in peripheral economies. From 1.8% in 2016Q4, Eurozone GDP growth stood at 1.7% in 2017Q1 and will keep the same pace in 2017Q2 as external demand is likely to dampen positive growth prospects from moderate domestic demand.

Growth in emerging and developing economies is projected to stand at 4.5% by end 2017 from 4.1% in 2016. Rising commodity prices are supporting the recovery in commodity exporting countries. Russia and Brazil are expected to recover in 2017 after two years of contraction benefiting from increase in prices of commodities. China and India kept growing at high rates driven by domestic consumption, investment and government support. Due to rising uncertainty from external environment such as the likely trade war with United States, interest rate rise in USA and critical situation in Northeast Asia, Chinese economy is foreseen to decelerate to 6.7% in 2017Q2 and to average 6.6% by end 2017 but as stimulus may be also fading out against 6.7% realized in 2016.

On commodity market, prices keep increasing for most commodities in 2017. According to World Bank forecast in April 2017, oil prices are foreseen to rise by 28.5% to around USD 55/barrel in 2017, unchanged compared to January 2017 forecasts reflecting oil supply cut by OPEC and Non-OPEC countries. Prices for metals are projected to increase by 16% in 2017 reflecting strong demand and tightening supply for most metals. For agriculture commodities, prices are foreseen to remain stable but outlook should differ across individual products. In 2017, prices are projected to drop by around 6% for beverages and by 3% for grains while agricultural raw materials prices are expected to increase by 4%.

Table 4: IMF commodity prices forecasts (in % change)

	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2017
Oil	-13.5	-22.4	36.7	-0.2	9.7	8.0	**1.7**	**1.0**	**-0.1**	**28.2**
Metals										
Aluminium	-6.2	1.4	3.8	3.1	5.6	8.2	**2.8**	**0.3**	**0.3**	**17.6**
TIN	-1.0	2.4	9.5	10.0	12.0	-3.9	**-3.8**	**-0.2**	**-0.3**	**17.6**
Iron ore	-14.9	2.5	16.5	3.9	20.9	20.8	**1.8**	**-5.6**	**-6.2**	**21.1**
Beverages										
Coffee Arabica	-1.6	0.0	5.1	9.5	1.0	-6.3	**-1.9**	**2.5**	**3.0**	**7**
Robusta coffee	-3.3	-6.6	10.1	8.9	7.7	4.2	**-1.0**	**1.1**	**0.4**	**18.1**
Tea (Mombasa)	-6.2	-20.0	-13.4	13.2	13.6	14.2	**0**	**0**	**0**	**17.1**
Cereals										
Wheat	-9.2	0.2	-2.1	-19.4	-4.4	17.1	**4.0**	**5.0**	**5.8**	**-2.5**
Maize	-1.4	-4.3	7.0	-10.3	-0.8	5.5	**1.3**	**2.9**	**2.6**	**1.9**
Rice	-4.4	2.8	9.3	4.1	-12.6	1.2	**1.5**	**3.7**	**2.6**	**-1.4**
Barel	-3.7	-2.8	14.8	-4.6	-1.4	4.6	**0.0**	**0.0**	**0.0**	**-6.6**

Source: http://www.imf.org/external/np/res/commod/index.aspx

With rising prices of commodities, inflation is projected to continue increasing in the near term. In advanced economies, inflation is expected to go up to 2.0% in 2017 from 0.8% in 2016 but in most of these economies core inflation stays below medium term objective pointing to continuing accommodative monetary policy. However, in USA, inflation has been moving closer to the target and projected to continue rising over the medium term on rising energy prices. From 2.5% in 2017Q1, annual inflation is foreseen to stabilize at 2.5% in 2017Q2 and 2017Q3. The Federal Reserve started to gradually increase the fund rate on the back of positive economic data but, the stance remains accommodative. Two up to three increases are expected in 2017.

In Eurozone, inflation rose partly reflecting base effects from energy and food prices but core inflation remains subdued and the output gap still negative. Eurozone inflation is expected at 1.6% in 2017Q2 and 2017Q3 from 1.8% in 2017Q1 while in China, consumer prices are projected to rise by 2.1% in 2017Q2 and 2.0% in the following quarter. Sub-Saharan African inflation is foreseen to remain high in 2017 with a double digit in some large economies like Nigeria, Angola and Ghana due to large currency depreciations among other factors.

On the foreign exchange markets, with a widening interest rate differentials, the dollar is expected to further appreciate in 2017 particularly in real terms. The appreciation the US dollar is likely to fuel pressures on currencies in emerging and developing economies which will be however moderated by gains in commodity exports.

Overall, this outlook is pointing to continuous pressures on domestic markets though weaker compared to the previous quarter. Oil prices are expected to increase less than previously and pressures on exchange rate are somehow easing.

II. DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

2.1 Domestic Demand and Output

The Rwandan economy remained resilient and recorded good performance in 2016 as real GDP grew by 5.9% against 8.9% recorded in 2015, despite challenging domestic and global economic environment such as lower international commodity prices and drought. This good performance was mainly driven by the service sector which grew by 7.1% from 10.4% in 2015 and accounted for 48.4% of the total real GDP, followed by the industry sector (+6.8%) and agriculture sector (+3.9%) with respective shares of 17.3% and 27.2% in total real GDP.

2.1.1 Domestic demand

In 2016Q4, domestic demand slowed as real GDP grew by 2.3% lower than 10.0% recorded in the same period of 2015, mainly attributed to household consumption which decelerated to 1.0% from 16.0% in 2015Q4, representing 78.7% of the total real GDP. The slowdown in household consumption was a result of the low performance of the agriculture sector in 2016Q4, which is also reflected in low growth of credit to the private sector. Total investment (gross fixed capital formation) declined by 13.0% after growing by 17.0% in 2015Q4. The construction sector, representing 69.7% of the total fixed capital formation, declined by 9.0% in 2016Q4 after a growth of 7.0% in 2015Q4. However, government consumption increased by 15.0% in 2016Q4 after a deceleration of 13.0% in both 2016Q3 and 2015Q4.

Table 5: Domestic demand (% change)

	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Gross Domestic Product	**9.3**	**8.1**	**10.0**	**8.9**	**7.4**	**5.3**	**2.3**
Total final consumption Expenditure	**13.0**	**9.0**	**15.0**	**3.0**	**11.0**	**2.0**	**3.0**
Government	-6.0	7.0	13.0	10.0	0.0	13.0	15.0
Households and NGOs	18.0	10.0	16.0	2.0	13.0	0.0	1.0
Gross capital formation	**16.0**	**28.0**	**17.0**	**30.0**	**6.0**	**15.0**	**-13.0**
Gross fixed capital formation	18.0	28.0	17.0	30.0	8.0	16.0	-13.0
Construction	18.0	29.0	7.0	14.0	-8.0	14.0	-9.0
Change in inventories	-16.0	12.0	-5.0	41.0	-34.0	-16.0	-6.0
Exports of goods & serv.	**9.0**	**1.0**	**3.0**	**8.0**	**8.0**	**17.0**	**19.0**
Imports of goods & serv.	**26.0**	**22.0**	**28.0**	**10.0**	**17.0**	**7.0**	**-2.0**

Source: National Institute of Statistics of Rwanda

The net external demand (resource balance) continues to be weighed by imports of goods and services, and has remained in deficit in 2016Q4 (FRW -315 billion). The resource balance has also remained in deficit throughout 2016, but has reduced, slightly declining by 3.4% from a deterioration of 24.7% in 2015 due to increased exports compared to declining imports.

2.1.2 Economic performance by sector

The real GDP grew by 2.3% in 2016Q4 from 5.3% and 10.0% recorded in 2016Q3, and 2015Q4, respectively, mainly driven by the service sector (+4.0%) and agriculture sector (+3.0). The industry sector did not perform well in 2016Q4 (+1.0%) compared to the same quarter of the previous year (+16.0%) due to the decline in construction sector driven from the completion of the big projects which is the main contributor of the industry sector (+44%). The low performance was also attributed to the mining and quarrying sub-sector which recorded a negative growth (-1.0%) as a result of falling international prices basically for metals and minerals.

Table 6: Quarterly Real GDP growth (in change % y-o-y)

	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	**8.0**	**9.3**	**8.1**	**10.0**	**8.9**	**7.4**	**5.3**	**2.3**
Agriculture	**4.0**	**6.0**	**6.0**	**5.0**	**8.0**	**3.0**	**1.0**	**3.0**
Food crops	4.0	4.0	4.0	4.0	5.0	5.0	1.0	1.0
Export crops	8.0	26.0	17.0	7.0	73.0	-21.0	-13.0	3.0
Industry	**6.0**	**9.0**	**5.0**	**16.0**	**12.0**	**9.0**	**7.0**	**1.0**
Mining & quarrying	-4.0	2.0	-23.0	15.0	10.0	15.0	19.0	-1.0
Manufacturing	10.0	8.0	8.0	8.0	7.0	9.0	6.0	4.0
Electricity	8.0	9.0	8.0	7.0	25.0	13.0	14.0	12.0
Water & waste management	2.0	0.0	0.0	1.0	3.0	6.0	7.0	6.0
Construction	7.0	13.0	17.0	24.0	15.0	7.0	2.0	-3.0
Services	**10.0**	**11.0**	**10.0**	**11.0**	**8.0**	**9.0**	**7.0**	**4.0**
Wholesale & retail trade	14.0	15.0	11.0	11.0	10.0	14.0	9.0	-8.0
Transport services	11.0	7.0	10.0	12.0	9.0	15.0	5.0	4.0
Hotels & restaurants	10.0	10.0	6.0	12.0	12.0	10.0	13.0	11.0
Information & communication	26.0	9.0	14.0	24.0	12.0	16.0	1.0	7.0
Financial services	9.0	9.0	22.0	10.0	9.0	5.0	2.0	-2.0
Real estate activities	3.0	3.0	7.0	5.0	4.0	7.0	5.0	10.0
Taxes less subsidies on products	**12.0**	**17.0**	**14.0**	**14.0**	**10.0**	**10.0**	**6.0**	**-8.0**

Source: National Institute of Statistics of Rwanda

The performance of the industry sector was however attributed to manufacturing and electricity sub-sectors. The manufacturing which is the second contributor to the industry sector (+34%) grew by 4.0% in 2016Q4 but lower than 8.0% recorded in 2015Q4. The electricity sub-sector increased by 12.0% in 2016Q4 from 7.0% in the corresponding period of 2015 resulting mainly from KIVUWATT and MUKUNGWA 1 new plants that boosted electricity production.

The service sector went up by 4.0% in 2016Q4 after 11.0% in 2015Q4, attributed mainly to real estate activities (+10.0%), followed by hotels and restaurants (+11.0%), and transport services (+4.0%). The slow pace in service sector compared to the same period of the previous year was a result of a decline in wholesale and retail trade (-8.0%) as well as financial services (-2.0%).

Leading economic indicators of economic activities such as the composite index of economic activities (CIEA), developments in total turnovers of industry and services, as well as credit to the private sector, indicate that economic activities in 2017Q1 continued to perform well.

The CIEA, in real terms, increased by 6.1% in 2017Q1 against 5.8% in 2016Q4 and 15.1% recorded in 2016Q1. It also grew by 9.0% in nominal terms from 10.4% in 2016Q4 and 19.3% in 2016Q1. This indicates that economic activities have started the recovery in 2017Q1.

Table 7: CIEA (% change, y-o-y)

CIEA	Nominal	Real
2016Q1	19.3	15.1
2016Q2	17.8	12.3
2016Q3	15.0	10.4
2016Q4	10.4	5.8
2017Q1	**9.0**	**6.1**

Source: BNR, Monetary Policy and Research Department

The total turnovers of industry and services sectors increased by 14.7% in 2017Q1 up from 6.9% and 12.1% registered in 2016Q4 and 2016Q1 respectively.

The industry sector which represents 25.8% of the total turnovers increased by 9.9% in 2017Q1 higher than negative 3.0% in 2016Q4, although lower than 13.4% recorded in 2016Q1. The increase in industry sector was mainly attributed to the good performance of energy (+19.1%), manufacturing (+9.2%), mining (+9.1%) and construction (+7.7%) sub-sectors.

Table 8: Turnovers of industry & services (in % change, y-o-y)

	% change				
	2016Q1	**2016Q2**	**2016Q3**	**2016Q4**	**2017Q1**
Total turnovers	**12.1**	**10.2**	**11.4**	**6.9**	**14.7**
Industries	**13.4**	**4.2**	**18.2**	**-3.0**	**9.9**
Mining and Quarrying	-48.2	-21.6	-11.4	-19.3	9.1
Manufacturing	24.9	5.0.	9.5	5.6	9.2
Energy Sector	57.5	73.5	57.1	27.8	19.1
Construction Sector	6.5	-6.0	31.0	-18.1	7.7
Services	**11.4**	**12.3**	**9.0**	**11.0**	**16.5**
Wholesale and Retail trade	7.8	7.7	6.8	11.2	16.8
Petroleum distributors	9.4	4.2	4.7	9.4	44.1
Transport and Storage	12.8	25.6	23.2	28.3	20.4
Hotels and Restaurants	18.2	14.7	14.9	16.1	1.9
Information and Communication	11.4	30.0	-0.3	7.9	0.9
Banks	33.2	30.1	22.7	11.1	7.7
Real Estate Activities	-13.0	14.0	3.5	39.9	13.5

Source: BNR, Monetary Policy and Research Department

The energy sector continues to grow thanks to the recent new plants that started operating in 2016. The mining sub-sector also performed well, growing by 9.1% in 2017Q1 after a decline in 2016Q4 (-19.3%) and 2016Q1 (-48.2%), as a result of an increase in mining exports value by 22.0% in 2017Q1, following a recovery in international commodity prices. This is reflected by International prices for metals and minerals, increasing year on year by 32.0% on average in 2017Q1 after dropping by 20.1% in the corresponding period of 2016.

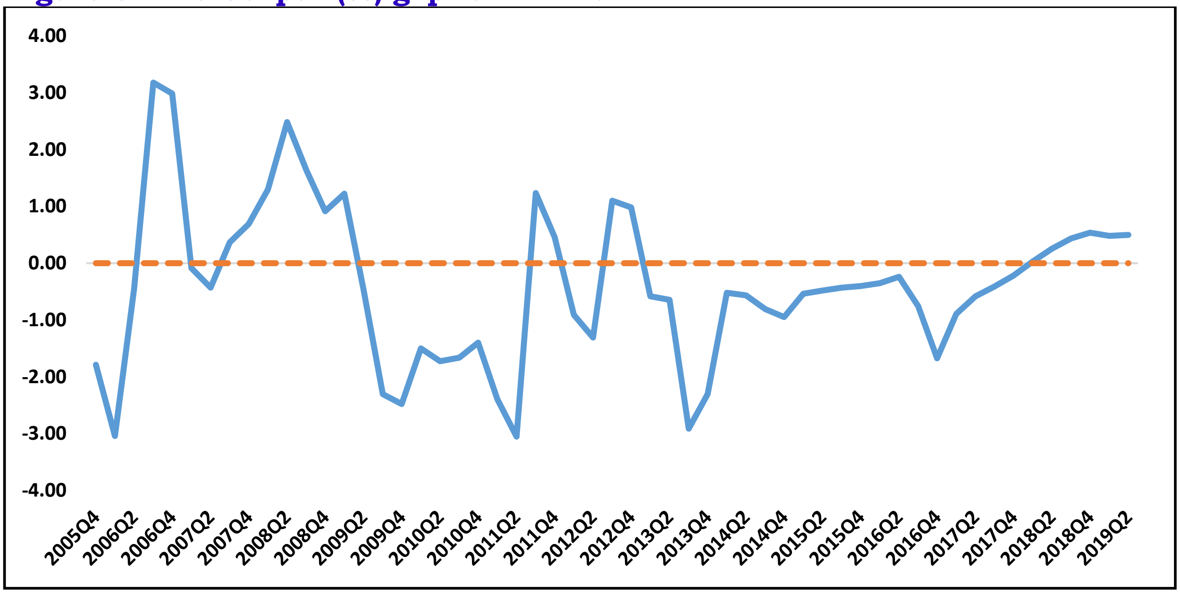
The construction sub-sector's performance (+7.7%) is evidenced by the domestic demand of cement which increased by 12.0% in 2017Q1 from a decline of 13.4% in the corresponding period of 2016. Domestic cement production by CIMERWA continued to expand, increasing by 30.9% in the first quarter of 2017Q1. This good performance of CIMERWA, whose turnovers increased by 38.8% in 2017Q1, contributed to the good performance of industry sector in general.

The service sector which represents 74.2% of the total turnovers increased by 16.5% in 2017Q1 higher than 11.4% registered in the corresponding period of 2016. This good performance is mainly attributed to petroleum companies whose total sales increased by 44.1% after 1.9% in the corresponding period of 2016 largely due to the increase in pump prices. Pump prices increased by 23.7% to FRW 1,022 per liter in March 2017 from FRW 826 in March 2016 and by 5.4% compared to its level in 2016Q4 (FRW 970). Furthermore, the services sector's performance was attributed to the wholesale and retail trade (+16.8%), transport (+20.4%), and Real estate activities (+13.5%). Transport sub-sector continues to be led mainly by Rwandair following its business expansion as evidenced by its sales that increased by 49.6% during the first quarter of 2017.

2.1.3 The Output gap

As used to approximate the cyclical position of the Rwandan economy, the output gap in 2016Q4 indicates a downward trend, where actual output was below its potential. In the context of inflation, the below potential output gap shows still weak domestic demand, hence no inflationary pressures from demand side.

Figure 3: The Output (%) gap for Rwanda



Source: BNR, Monetary Policy and Research Department

2.1.4 Outlook of the domestic demand and output

The Rwandan economy has remained resilient, with real GDP growing by 5.9% in 2016 after 8.9% in 2015. Real GDP is projected to grow by 6.2% in 2017, sustained by the expected improvement in prices of metals and minerals, the ongoing government measures such as the reduction in electricity tariffs by at least 28%, continued increase in cement production by CIMERWA, and Government projects such as rehabilitation and construction of roads.

The output gap shows that domestic demand is still low, and thus, no inflationary pressures expected from the domestic demand side in the second and third quarters of 2017. However, inflationary pressures from food supply that continued to be high in the beginning of 2017 are expected to continue during 2017Q2 and 2017Q3 and outweigh non-inflationary pressures from the domestic demand.

2.2. Public Domestic Debt development

Total domestic debt at the end of 2017Q1 increased by 15.9% y-o-y, largely reflecting increased uptake of bonds and securitized debts. While the performance of the government domestic borrowing programme improved during 2017Q1, it had a slowdown in banking sector mainly due to tight liquidity conditions in the market. This was evidenced by 13.2% (y-o-y) decline in most liquid assets of banks, referring to increased involvement of institutional investors in the securities market. Likewise, most of these non-bank economic agents are the ultimate depositors of bank. In fact, the non-bank preference to invest in securities market than in deposits with banks was mainly attracted by better rates. This brought the purchase of T-bills and development bonds by non-banking sector to rise by 295.4% and 45.3% respectively compared with the same period in 2016.

Table 9: Sectoral Composition of Public Domestic Debt (billion FRW)

Sector	2015	2016				2017	Annual %age 2017Q1/2016Q1
	Q1	Q1	Q2	Q3	Q4	Q1	
BNR (excluding monetary instruments)	**39.8**	**39.8**	**43.2**	**58.2**	**37.5**	**66.8**	**68.0**
Consolidated debt	38.1	38.1	38.1	38.1	37.5	37.5	-1.5
Overdraft	1.7	1.7	5.1	20.1	0	29.3	1635.8
Banking Sector	**282.4**	**282.4**	**279.4**	**246.6**	**242.1**	**258.5**	**-8.5**
Development bonds	66.8	66.8	70.3	74.0	75.0	73.7	10.4
Bonds issued at MINECOFIN	0.4	0.4	0.4	0.4	0.2	0.2	-50.1
Treasury bills	215.2	215.2	208.7	172.2	166.9	184.6	-14.2
Non-Banking Sector	**127.3**	**127.3**	**152.2**	**185.1**	**196.5**	**195.4**	**53.5**
Development bonds	63.3	63.3	69.3	80.4	91.4	91.9	45.3
Consolidated debt to RSSB	39.4	39.4	38.3	36.3	35.2	27.8	-29.4
Bonds issued at MINECOFIN	0.9	0.9	0.9	0.9	0.9	0.9	0
Treasury bills	17.3	17.3	37.3	61.1	62.5	68.4	295.4
Other bonds for old arrears	6.4	6.4	6.4	6.4	6.4	6.4	0
TOTAL DOMESTIC DEBT STOCK	**449.4**	**449.4**	**474.8**	**489.9**	**476.1**	**520.7**	**15.9**

Source: MINECOFIN

For non-banks, the percentage of T-bonds in total domestic debt increased from 14.1% in 2016Q1 to 17.6% in 2017Q1, while that of T-bills increased from 3.8% of total domestic debt to 13.1% during the review period. The significant increase in T-Bills relative to T-Bonds reflects non-bank preference for shorter term securities during periods of rising interest rates.

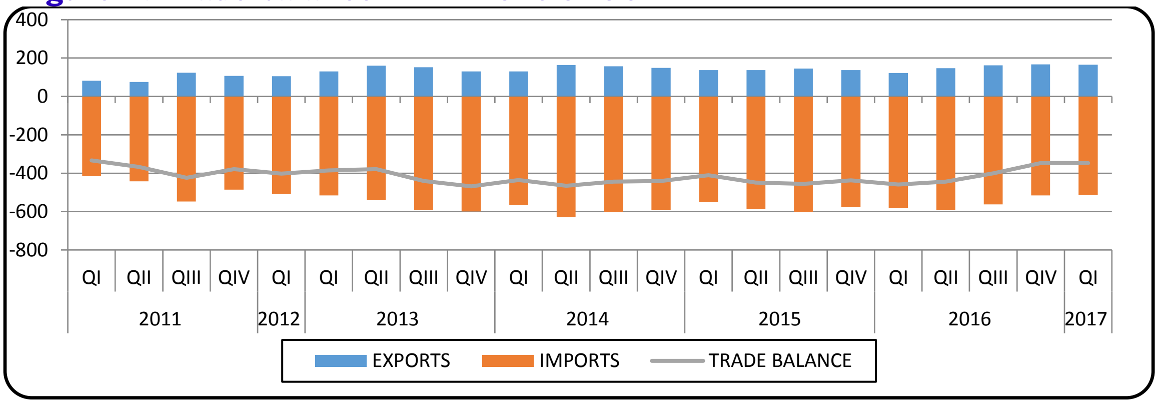
In terms of debt composition by type of creditors, commercial banks remain the main holder of the government overall outstanding debt with a total share of 49.6%. Also in terms of occupancy in securities market, banks are still dominant holder of short dated securities (35.5%) despite decline in their market involvement during the period under review. While non-bank dominates in T-bonds with a share of 17.6% in the total domestic debt compared to the share of 14.2% held by the banking sector. During the review period, the spending facility from BNR rose to FRW 29.3 billion from FRW 1.7 billion. Despite sharp increase, the overdraft undertaken was well below the facility ceiling of FRW 105.5 billion. In general, the overall growth in government domestic financing against the same last year's period was mostly driven by increase in both short and long-term securities.

2.3 External Sector Developments

2.3.1 Formal trade balance

Rwanda's trade deficit reduced by 24.4% in 2017Q1 to a deficit of USD 346.4 million from a deficit of USD 458.2 million in 2016Q1, following an increase in formal exports by 35.3% in value and a decline in formal imports value by 11.8%. In 2016 compared to 2015, Rwanda's trade deficit reduced by 5.9% as formal imports decreased by 2.7 % while exports grew by 7.1% from a contraction of 6.8% in 2015. Despite this decline in formal imports, Rwanda's trade balance remains in a deficit, and formal exports covered 32.4% of formal imports in 2017Q1 from 21.1% in 2016Q1.

Figure 4: Trade balance in millions of USD



Source: BNR, Monetary Policy & Research Department

2.3.1.1 Formal exports of goods

In 2017Q1, formal exports recorded a growth of 35.3% in value (USD 165.78 million from USD 122.51 million in 2016Q1), after a decrease of 11.1% in 2016Q1, due to the increase in exports value of other exports (+63.4%), re-exports (+37.4%), Cassiterite (+63.9%), tea (+25.9%) as well as hides and skins (+24.7%). Formal exports volume also increased by 39.6% in 2017Q1, due to high growth in re-exports (+50.7%), other exports (+37.1%), tea (+13.2%), Cassiterite (+42.7%) and Coltan

(+15.9%). The main components of formal exports are re-exports, accounting for 37.0%, followed by traditional exports (34.2%) and non- traditional exports with a share of 28.9%.

Table 10: Exports developments (annual % change)

	Volume				Value			
	2015Q4	2016Q1	2016Q4	2017Q1	2015Q4	2016Q1	2016Q4	2017Q1
Total exports	**10.5**	**8.0**	**28.9**	**39.6**	**-7.9**	**-11.1**	**22.0**	**35.3**
Main exports	3.9	-2.9	0.0	8.2	-21.4	-20.8	-5.0	16.5
Coffee	40.6	81.4	6.7	-13.3	10.2	25.4	6.4	-12.1
Tea	-10.7	-3.9	3.4	13.2	32.5	6.8	-8.4	25.9
Mining	-22.8	-21.4	-5.3	22.0	-46.1	-42.9	-11.5	25.9
Cassiterite	-28.1	-28.8	9.7	42.7	-52.1	-36.5	63.1	63.9
Coltan	-20.1	-26.4	-37.0	15.9	-42.0	-49.1	-44.4	3.6
Wolfram	-12.2	5.7	0.8	-16.0	-52.5	-37.4	12.9	-13.0
Hides and Skins	-7.9	-44.5	-24.7	19.5	-25.5	-58.5	-12.6	24.7
Pyrethrum	141.2	79.2	5.0	-91.5	141.8	101.4	3.5	-92.2
Re-exports	60.3	47.6	49.8	50.7	27.6	17.6	36.2	37.4
Other exports	-17.9	-16.5	14.9	37.1	-13.8	-23.8	63.3	63.4

Source: BNR, Statistics Department

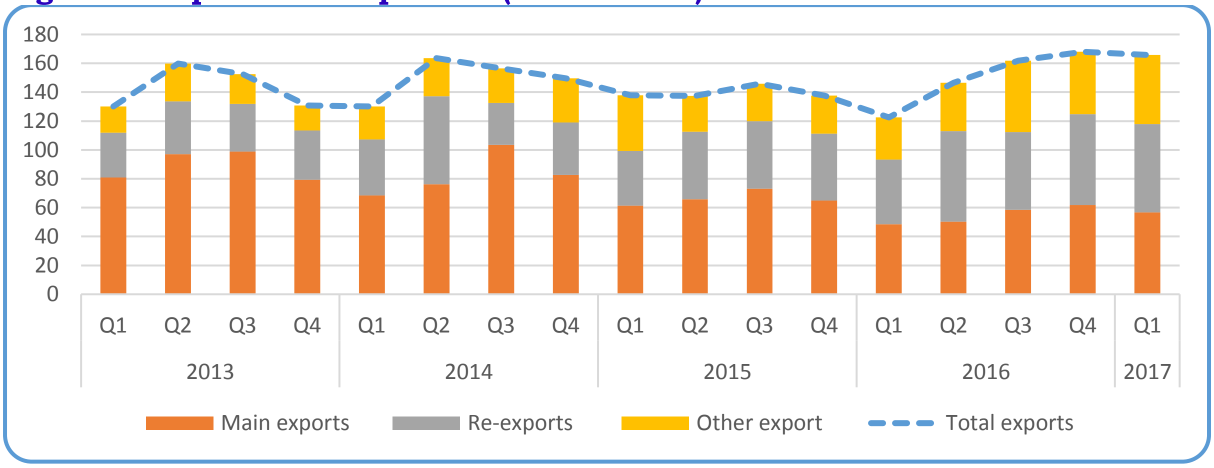
Coffee exports decreased in both value and volume by 12.1% and 13.3% respectively, despite the slight increase in unit price by 1.4% from USD 2.53/Kg to USD 2.56/Kg in 2017Q1. The decrease in volume of coffee exports resulted mainly from a decline in production (-38.3%) observed at the beginning of this year, from 3,497.8 tons in 2016Q1 to 2,157.8 tons in 2017Q1 due to unfavorable weather conditions. However, tea exports increased in both value and volume by 25.9% and 13.2% respectively, mainly due to the increase in unit price (+11.2%).

The mining sector recorded a good performance, increasing in both value and volume by 25.9% and 22.0% respectively, mainly due to the recovery in international mineral prices. Cassiterite increased in both value and volume by 63.9% and 42.7% respectively, as its unit price rose by 14.8%. Despite the fall in its unit price by 10.6%, Coltan exports increased by 3.6% in value and 15.9% in volume. By contrast, exports of wolfram decreased in both value and volume by 13.0% and 16.0% respectively, despite the rise in unit price by 3.5% from USD 6.98/kg in 2016Q1 to USD 7.22/Kg in 2017Q1. Exports value and volume for hides and skins increased by 24.7% and 19.5%, respectively, while exports for pyrethrum decreased in both value and volume by 92.2% and 91.5% respectively, partly due to the fall in unit price by 8.1%. The decline was also due to the contract signed between pyrethrum exporters (SOPERWA) and pyrethrum buyers effective for the last three quarters of 2017, leading to less exports in the first quarter of 2017. This trend keeps on changing depending on the contract signed between the buyer and the seller.

Non-traditional exports (other exports) which are dominated by products of other minerals (+58.2%) and milling industry (+11.7%), highly increased by 63.4% in value and 37.1% in volume, mainly attributed to the rise in exports value of other minerals (+128.2%), such as gold, iron ores & concentrates, cobalt ores & concentrates and chromium ores & concentrates.

Re-exports increased by 37.4% in value and by 50.7% in volume due to upsurge in re-exports of petroleum products (+80.6% in value and +101.2% in volume), mostly re-exported to Burundi and DRC.

Figure 5: Exports developments (USD million)



Source: BNR, Monetary Policy & Research Department

2.3.1.2 Formal imports of goods

In 2017Q1, formal imports decreased by 11.8% in value (to USD 512.17 million from USD 580.75 million in 2016Q1), after an increase of 5.9% in the corresponding period of 2016, following the decline in the value and volume of all import components except energy and lubricants which increased by 14.8% in value as well as intermediary goods which increased by 8.2% in volume.

Table 11: Imports developments (annual % change)

	Volume				Value			
	2015Q4	2016Q1	2016Q4	2017Q1	2015Q4	2016Q1	2016Q4	2017Q1
Total imports	10.6	0.8	-4.3	-1.9	-2.6	5.9	-10.5	-11.8
Consumer goods	16.4	24.4	13.9	-10.8	3.6	5.0	-2.8	-15.4
Food product	16.0	36.0	25.8	-9.1	14.1	7.7	33.0	24.4
Health and care	17.0	3.7	-12.4	-2.2	12.6	-18.4	-28.4	-9.2
Domestic articles	0.8	-34.4	-17.8	-5.0	4.4	-29.3	-27.2	-43.0
Capital goods	18.6	27.2	-25.9	-20.5	7.0	42.0	-14.8	-18.7
Transport Material	61.2	82.4	-42.1	-11.6	5.4	33.4	-22.7	16.3
Machines, devices and tools	18.6	24.5	-22.4	-34.1	13.4	63.4	-19.3	-30.6
Intermediary goods	4.3	-20.9	-16.8	8.2	-6.8	-14.5	-15.5	-8.4
Construction material	0.2	-32.7	-30.8	-11.9	-9.0	-16.7	-25.8	-30.7
Industrial products	19.1	0.3	-4.7	32.0	1.0	-9.7	-16.7	3.3
Fertilizers	-32.8	-34.0	62.0	0.7	-29.6	-40.1	36.7	8.0
Energy and lubricants	17.1	23.2	-1.6	-0.9	-24.7	-12.8	-7.5	14.8
Petroleum products	-0.1	3.1	-3.9	4.2	-25.3	-16.1	-8.7	16.9
Trade deficit					**-438.0**	**-458.2**	**-347.0**	**-346.9**
Imports cover (ratio of exports to imports)					**23.9**	**21.1**	**32.6**	**32.3**

Source: BNR, Statistics Department

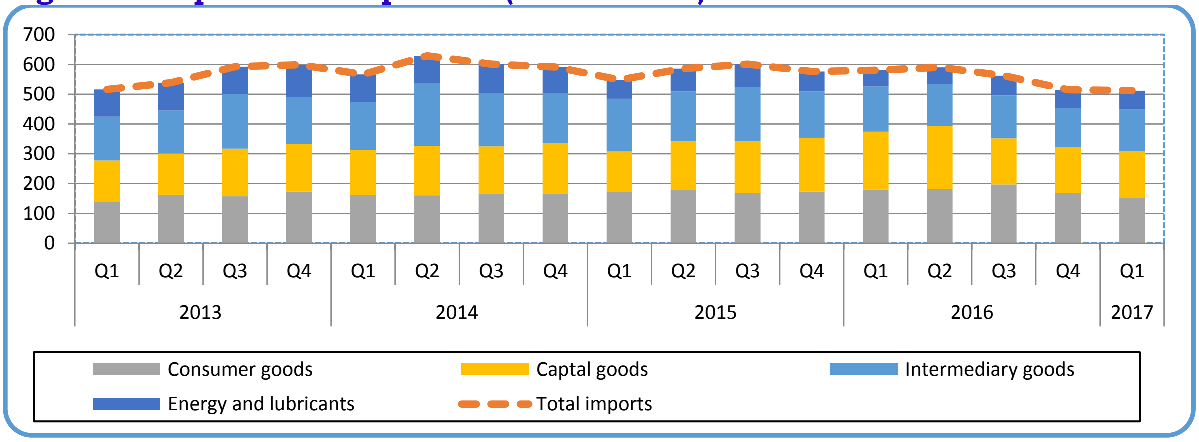
Imports of consumer goods which represent 35.5% of the total imports in volume and 29.8% in value were dominated by food products with a share of 80.6% in volume and 49.4% in value, decreased by 10.8% in volume and by 15.4% in value. The decrease in volume compared to an increase of 24.4% in the corresponding period of the previous year was mainly attributed to the decline in imports of food products (-9.1%) due to the poor performance in agriculture production in EAC, and article of clothing (-63.3%) mainly due to the upward revision of taxes on second hand clothes in attempt to discourage importation of second hand clothes and promote clothes manufactured by local textiles, hence promoting made in Rwanda's initiative.

Capital goods which account for 3.4% of the total imports volume and 30.8% in value are dominated by machines, devices and tools as well as transport materials, decreased in both volume and value by 20.5% and 18.7% respectively, mainly due to the low imports of machines, devices and tools (-34.1% in volume and -30.6% in value). Imports of transport materials decreased by 11.6% in volume but increased by 16.3% in value, where the decline in volume of transport materials is due to high taxes imposed on importation of used cars which has led to the reduction of their imports following a new investment code for all EAC countries.

Dominated by construction materials, industrial products and fertilizers; imports of intermediary goods which represent 45.0% of the total imports in volume and 27.1% in value, increased by 8.2% in volume but decreased in value by 8.4%. The decrease in value was mainly due to the low imports of construction materials which decreased by 30.7% in value, driven by the fall in imported cement and other similar products which represent 67.1% of the total imports of construction materials. Imports of cement and other similar products decreased in both volume and value by 6.7% and 36.0% respectively, as a result of increased domestic production (+28.2%). The increase in volume of intermediary goods was due to the increase in imports volume of industrial products which increased by 32.0%.

Imports of energy and lubricants which account for 16.2% of the total imports volume and 12.4% in value, slightly decreased by 0.9% in volume but increased by 14.8% in value, due to the increase in value of imports of petroleum products by 16.9%, with a share of 85.0% of volume and 93.1% of value.

Figure 6: Imports developments (USD million)



Source: BNR, Monetary Policy & Research Department

2.3.2 Formal Trade with EAC Countries

In 2017Q1, Rwanda's exports to other EAC member countries, which represent 21.7% of the total formal exports decreased by 8.6% from an increase of 23.8% in the corresponding period of 2016, amounting to USD 35.9 million from USD 39.3 million in 2016Q1. Imports from EAC countries also decreased by 4.2%, from USD 112.1 million recorded in 2016Q1 to USD 107.3 million in 2017Q1. As a result, trade deficit reduced by 1.8%, to a deficit of USD 71.5 million in 2017Q1 from a deficit of USD 72.8 million in the corresponding period of 2016.

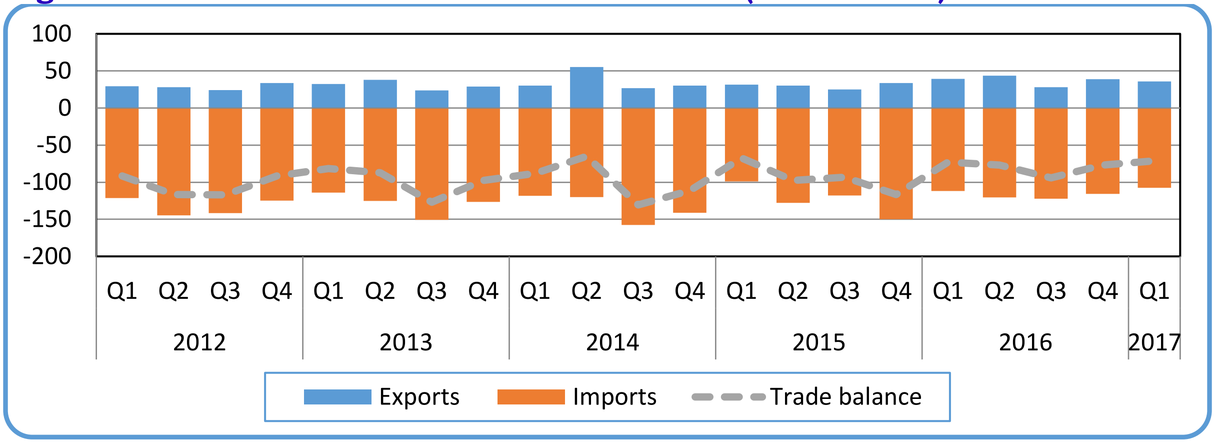
Table 12: Trade flow of Rwanda within EAC bloc (USD million)

		2015Q4	2016Q1	2016Q4	2017Q1
Exports to EAC	Value in USD millions	33.5	39.3	38.8	35.9
	% change	11.4	23.8	15.7	-8.6
	Share of total formal exports	24.3	32.0	23.1	21.7
Imports from EAC	Value in USD millions	149.9	112.1	115.6	107.3
	% change	6.0	-9.3	-22.9	-4.2
	Share of total formal imports	26.0	19.3	22.4	21.0
Trade balance		**-116.4**	**-72.8**	**-76.9**	**-71.5**

Source: BNR, Statistics Department

Rwanda's main exports to EAC member countries remain tea (sold at Mombasa auction regional market), petroleum products, raw hides and skins of bovine, motor cars, sorghum, leguminous vegetables, telecommunication equipment and beer. Imports from EAC member counties are composed of cements, refined and non-refined palm oil and other cooking oils, sugar cane, minerals or chemical fertilizers, clothing, soap and organic surface and agriculture products.

Figure 7: Trade flow of Rwanda within EAC bloc (USD million)



Source: BNR, Monetary Policy & Research Department

2.3.3 Informal cross-border trade

Rwanda's informal cross-border exports with neighbouring countries which account for 13.6% of the total formal exports in 2017Q1 decreased by 27.1%, amounting to USD 22.5 million in 2017Q1 from USD 30.8 million in the corresponding period of 2016. This decline resulted mainly from the decrease of exports to Uganda (-69.2%) due to the reduction of the exportation of telephonic apparatus since the small trader who used to export these telephonic apparatuses graduated to a medium trader and now declares his exports through customs. Exports to DRC in 2017Q1 also decreased by 38.6% fallowing the new imposed trade barriers.

The major commodities traded in informal cross border exports are agriculture products, telecommunication equipment and livestock. Exports to the Democratic Republic of Congo (DRC) represent a big share of 80.7% of the total informal cross border exports, followed by exports to Uganda with 14.3%, while exports to Burundi and Tanzania account for 5.0% and 0.01% respectively.

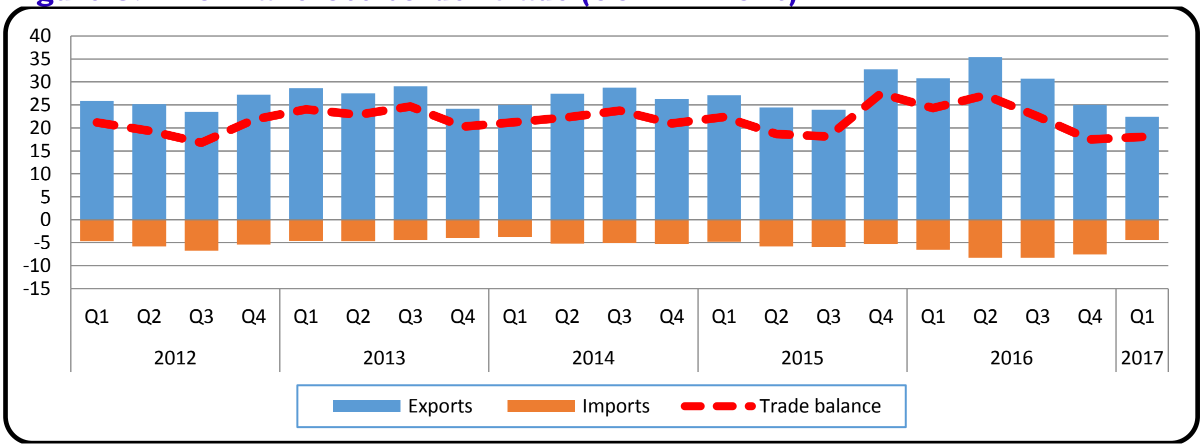
Table 13: Rwanda informal cross border trade (USD million)

		2015Q4	2016Q1	2016Q4	2017Q1
Exports	Value in USD millions	32.7	30.8	25.0	22.5
	% change	24.7	13.6	-23.7	-27.1
	Share of total formal exports	23.8	25.2	14.9	13.6
Imports	Value in USD millions	5.3	6.5	7.5	4.4
	% change	-0.1	36.6	42.9	-31.8
	Share of total formal imports	0.9	1.1	1.5	0.9
Trade balance		27.5	24.3	17.5	18.0

Source: BNR, Statistics Department

Informal imports also decreased by 31.8% in 2017Q1, to USD 4.4 million in 2017Q1 from USD 6.5 million in 2016Q1, after a high increase of 36.6% recorded in the corresponding period of last year, driven by the decrease of imports from Uganda (-29.3%) and Burundi (-54.5%). Since most of the imports are agricultural products, the reduction observed in informal imports from Uganda and Burundi is related to unfavourable weather conditions, which affected the region. Rwanda's informal trade balance with neighbouring countries decreased by 25.9%, from USD 24.3 million in 2016Q1 to USD 18.0 million in 2017Q1. The main imported products from neighboring countries are Irish potatoes, fresh fish, sorghum, bananas for cooking, and other manufactured and recycled products.

Figure 8: Informal cross border trade (USD millions)



Source: BNR, Monetary Policy & Research Department

2.3.4 The exchange rate: bilateral and effective

In 2017Q1, pressures on Rwandan Franc have started easing, thanks to the improvement in Rwanda's export receipts in line with the continued recovery in international commodity prices. In addition, the import bill is reducing due to increased domestic production of goods such as cement that previously required a lot of forex to import, the Made-in-Rwanda initiative and the phasing out of some major construction projects. By end March 2017, relative to December 2016, the FRW slightly depreciated by 0.8% against the USD, compared to a depreciation of 2.8% on the corresponding date of 2016.

Table14: Appreciation / depreciation rate of selected currencies against FRW

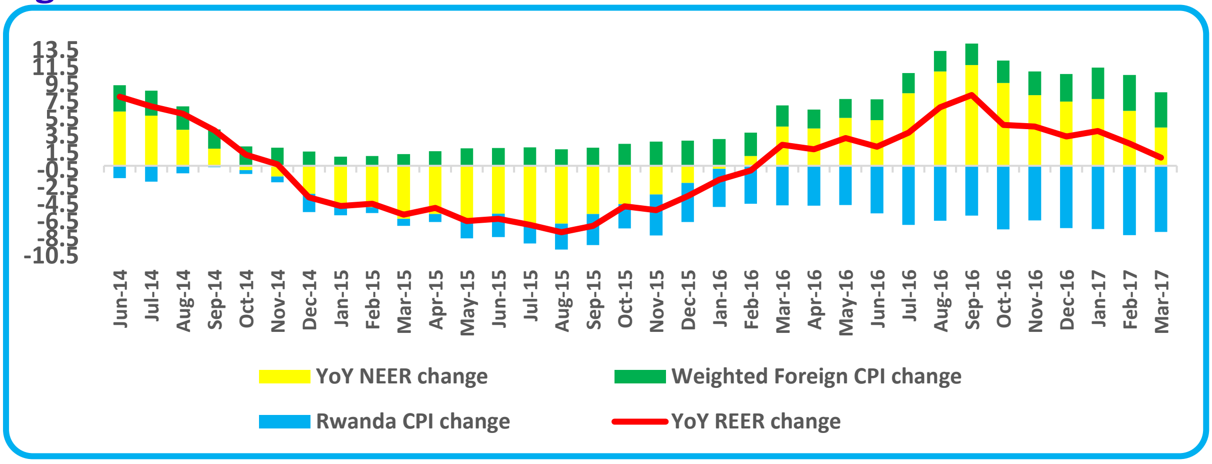
	USD/ FRW	GBP/ FRW	EUR/ FRW	KES/ FRW	TZS/ FRW	UGS/ FRW	BIF/ FRW
Dec-12	4.5	10.0	7.7	3.4	4.7	-2.6	-11.5
Dec-13	6.1	8.0	10.2	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	9.6	8.6	2.3	-0.2
Mar-17	0.8	2.5	2.5	0.3	-1.6	0.8	-0.3

Source: BNR, Monetary Policy and Research Department

In the same period, the FRW depreciated by 2.5% against both the British pound and Euro. In comparison with regional currencies, FRW depreciated by 0.3% and 0.8% against the Kenyan shilling and the Ugandan shilling respectively, while it appreciated by 1.6% and 0.3% against the Tanzanian shilling and the Burundian franc.

Looking at the basket of currencies for Rwanda's main trading partners, it is worth mentioning that by end March 2017, the FRW real effective exchange rate depreciated by 1.0% (y-o-y) after a depreciation of 3.4% end December 2016, while in nominal effective terms, it depreciated by 4.5% compared to a depreciation of 7.5% end December 2016.

Figure 9: Drivers of REER movement



Source: BNR, Monetary Policy and Research Department

2.4 Monetary and Financial Developments

2.4.1 Money Supply and Demand

Broad money grew at higher pace end 2017Q1 compared to end 2016Q4 mainly due to the improvement in net credit to government and the stock of credit to the private sector. The currency in circulation continued to decline but at low pace compared to last year. Its ratio in broad money remained low owing to payments system modernization, extension of banking sector network and microfinance institutions. In 2017Q1, total deposits improved compared to the same period of the preceding year.

2.4.1.1 Money Supply

Broad money (M3) increased by 2.2% end 2017Q1 compared to end 2016Q4 to reach FRW 1629.6 billion against a decline of 0.1% recorded in the corresponding period of 2016. This recovery in broad money M3 by end 2017Q1 is a result of an expansion in net credit to government (NCG) and the stock of credit to private sector (CPS) by 384.1% and 4.9% respectively against 85.3% and 3.5% respectively recorded in the same period of 2016. The expansion in NCG followed increased government borrowing from the banking system (+14.1%) against (+3.8%) last year while the sock of CPS expanded on the back of an expansion in new authorized loans by 7.1% in 2017Q1.

Table 15: Monetary aggregates (FRW billion)

	2015		2016				2017	% change			
	Q1	Q4	Q1	Q2	Q3	Q4	Q1	Q1-16/ Q1-15	Q1-17/ Q1-16	Q1-16/ Q4-15	Q1-17/ Q4-16
Net foreign assets	**659.7**	**642.6**	**559.3**	**567.5**	**546.7**	**739.2**	**686.0**	**-15.2**	**22.7**	**-13.0**	**-7.2**
Foreign assets	869.9	860.8	769.7	890.0	872.6	1078.2	1049.0	-11.5	36.3	-10.6	-2.7
Foreign liabilities	210.2	218.1	210.5	322.5	325.9	339.0	363.0	0.1	72.5	-3.5	7.1
Net domestic assets	**615.2**	**839.5**	**920.7**	**1004.9**	**954.1**	**855.5**	**943.6**	**49.7**	**2.5**	**9.7**	**10.3**
Domestic credit	1004.2	1223.1	1328.0	1436.3	1393.9	1325.6	1436.6	32.2	8.2	8.6	8.4
Central government (net)	-3.4	39.5	73.2	124.4	47.7	12.2	59.0	2225.4	-19.3	85.3	384.1
Credit	231.4	304.1	315.7	318.3	299.9	284.5	324.5	36.4	2.8	3.8	14.1
Deposits	234.8	264.6	242.5	193.9	252.2	272.3	265.5	3.3	9.5	-8.3	-2.5
Public enterprises	12.3	5.6	35.4	40.3	40.6	43.7	45.4	187.8	28.4	533.0	3.9
O/W in foreign currency	*6.1*	*1.3*	*12.8*	*17.6*	*17.3*	*21.7*	*23.3*	109.9	82.9	913.7	7.6
Private sector	995.4	1178.1	1219.5	1271.6	1305.6	1269.6	1332.2	22.5	9.2	3.5	4.9
O/W in foreign currency	*69.5*	*134.9*	*171.0*	*196.5*	*215.5*	*163.0*	*189.1*	146.0	10.6	26.8	16.0
Other items net (Assets: +)	-389.0	-383.7	-407.3	-431.4	-439.8	-470.0	-493.1	-4.7	-21.0	-6.2	-4.9
Broad money M3	**1274.9**	**1482.1**	**1479.9**	**1572.4**	**1500.8**	**1594.7**	**1629.6**	**16.1**	**10.1**	**-0.1**	**2.2**
Currency in circulation	117.4	142.6	133.0	150.8	133.6	145.9	143.1	13.3	7.6	-6.8	-1.9
Deposits	1157.5	1339.5	1347.0	1421.6	1367.2	1448.8	1486.5	16.4	10.4	0.6	2.6
O/W Demand deposits	480.7	594.1	617.8	640.0	548.4	565.9	571.5	28.5	-7.5	4.0	1.0
Time and saving Deposits	446.7	489.5	472.8	512.4	523.0	554.4	566.6	5.9	19.8	-3.4	2.2
Foreign currency Deposits	230.2	255.9	256.4	269.2	295.8	328.5	348.3	11.4	35.9	0.2	6.0

Source: BNR, Statistics Department

Broad money increased by 10.1% (y-o-y) end 2017Q1 lower than 16.1% recorded end 2016Q1. This slowdown was driven by a low growth of 2.5% in net domestic assets (NDA) against 49.7% realized in the same period of last year.

Compared to end 2016Q4, NFA reduced by 7.2% end 2017Q1, driven by a contraction in BNR's NFA by 9.6%. This downturn in BNR's NFA resulted from more expenditures in foreign currency and the fall in foreign resource component. However, NFA of commercial banks expanded by 12.7% as a result of the good performance of the external sector. Net credit to government increased by 384.1% end 2017Q1 compared to end 2016Q4, higher than 85.3% in the same period of the previous year. This high growth in NCG resulted from an expansion in government borrowing from the banking system.

New authorized loans increased by 7.1%, to reach FRW 213.2 billion in 2017Q1, compared to 2016Q1. In the latter period, they had grown by 12% compared to 2015Q1. This deceleration mainly resulted from a decline in loans to commerce, restaurant and hotels as well as manufacturing sectors. Actually, the new loans to commerce, restaurants and hotels (the main sector financed by banks) reduced by 18.4% in 2017Q1 from a growth of 39.1% recorded in 2016Q1 mainly due to big projects such as KCC which was completed in 2016. The loans authorized in manufacturing sector also declined by 39.7% in 2017Q1 from an increase of 69.4% in 2016Q1. This decline was due to the base effect as big loans have been authorized in 2016Q1 especially loans to AFRIPRECAST, a new project for construction materials.

The growth of new authorized loans in 2017Q1 mainly resulted from the increase of 53.8% in loans to Public works and building sector from a big decline of 44.5% realized in the same period of 2016 mainly due to loans authorized to big companies such as Kigali Business Centre (KBC), Fair Construction and GASABO Investment Company.

Table 16: New authorized loans by sector (FRW billion, unless otherwise indicated)

Activity sector	2015		2016					2017	% Change	
	Q1	Total	Q1	Q2	Q3	Q4	Total	Q1	Q1-16/ Q1-15	Q1-17/ Q1-16
Non-classified Activities	14.8	67.1	19.0	18.8	19.5	20.4	77.7	23.4	28.2	23.3
Agricultural, Fisheries& Livestock	3.8	13.9	3.4	2.8	3.0	2.2	11.5	2.9	-9.3	-15.9
Mining Activities	0.2	0.3	0.7	1.0	0.1	0.0	1.8	0.4	298.1	-48.9
Manufacturing Activities	7.9	51.2	13.3	22.5	6.3	21.8	63.9	8.0	69.4	-39.7
Water & Energy Activities	0.05	1.3	7.8	0.2	0.1	16.6	24.7	8.0	14771.3	2.4
Public works and building	64.7	237.1	35.9	54.1	49.5	55.6	195.0	55.2	-44.5	53.8
Commerce, Restaurant and Hotels	74.7	279.7	103.9	112.2	55.9	76.6	348.6	84.7	39.1	-18.4
Transport & Warehousing & Communication	6.7	54.1	8.7	10.1	9.2	9.9	37.7	19.7	29.8	127.0
OFI & Insurances and Other Non-financial Services	0.6	4.8	3.0	0.5	1.2	1.1	5.8	5.4	384.1	79.3
Services provided to the Community	4.7	32.6	3.8	5.1	4.9	8.0	21.8	6.1	-18.6	58.2
Total	**178.1**	**742.1**	**199.5**	**227.2**	**149.8**	**212.0**	**788.5**	**213.7**	**12.0**	**7.1**

Source: BNR, Financial Stability Directorate

Considering the distribution of loans by activity branch, over the last five years, the sector of commerce, restaurants and hotels continued to dominate other sectors with 44.3% of total loans on average between 2013 and 2017 followed by Public works and building with 22.8%, activities not classified elsewhere mainly composed by personal loans which own a share of 10.2% and Manufacturing activities with an average of 7.8%.

Table 17: Distribution of new authorized loans by sector of activities (% share of total new loans)

Activity branch	2013Q1	2014Q1	2015Q1	2016Q1	2017Q1	Average
Non-classified activities	13.1	9.2	8.3	9.5	11.0	10.2
Agricultural, fisheries& livestock	1.8	1.2	2.1	1.7	1.4	1.6
Mining activities	0.0	0.0	0.1	0.3	0.2	0.1
Manufacturing activities	2.8	21.2	4.4	6.7	3.8	7.8
Water & energy activities	0.0	9.6	0.0	3.9	3.7	3.5
Mortgage industries	17.9	15.7	36.3	18.0	25.8	22.8
Commerce restaurant and hotel	51.0	36.8	41.9	52.1	39.6	44.3
Transport & warehousing & communication	7.7	3.4	3.7	4.3	9.2	5.7
OFI &Insurances and other non-financial services	4.0	0.2	0.3	1.5	2.5	1.7
Services provided to the community	1.8	2.7	2.7	1.9	2.8	2.4

Source: BNR, Financial Stability Directorate

2.4.1.2 Money demand

Currency in circulation (CIC) declined by 1.9% end 2017Q1 compared to end 2016Q4 against a decline of 6.8% recorded in the corresponding period of the previous year due to seasonal factors.

The currency to broad money ratio remained low in the recent past, averaging to 9.0% in the last two years on account of extension in banking sector network, microfinance institutions and payments systems modernization.

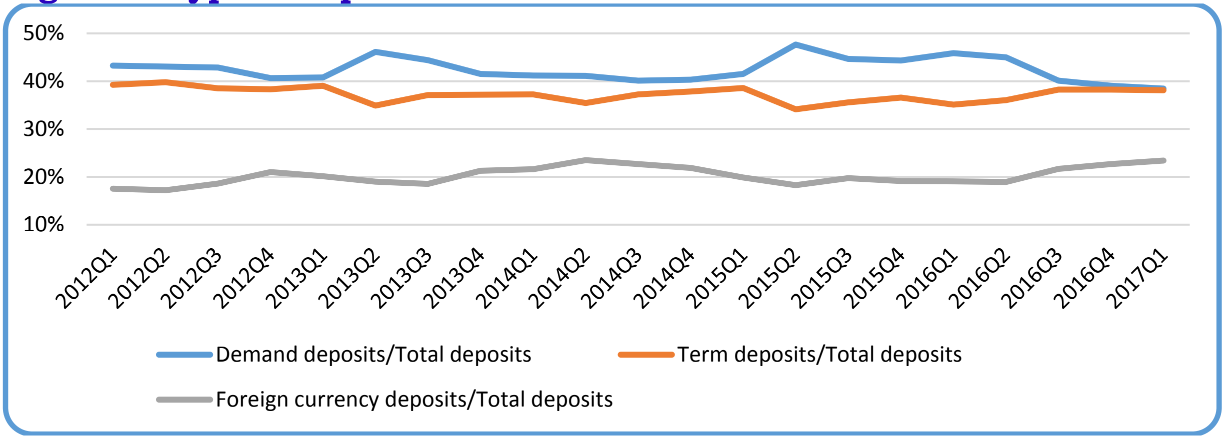
Total deposits increased by 2.6% end 2017Q1 compared to end 2016Q4 lower than 0.6% recorded in the corresponding period of the previous year due to an improvement in economic activities as total turnovers of industry and services expanded by 14.5% in 2017Q1 compared with 12.1% in 2016Q1. However, the composite index of economic activities grew by 6.1% in 2017Q1 against a growth of 15.1% in 2016Q1.

By end 2017Q1 compared to end 2016Q4, demand deposits expanded by 1.0% versus 4.0% recorded in the corresponding period of 2016, term and saving deposits increased by 2.2% against a reduction of 3.4% last year ,while foreign currency deposits grew by 6.0% against an increase of 0.2% recorded in the year earlier.

The share of demand deposits as proportion of total deposits recently reduced to stand at the same level of term and saving deposits which is 38% end 2017Q1, from 46% and 35% respectively recorded for demand and time and saving deposits end 2016Q1. During the same period, the share of foreign currency deposits increased to 23% from 19% last year.

The improvement in share of term deposits is due to the ongoing awareness campaign on saving culture and deposits of AGACIRO Development Funds while the high share of foreign currency is mainly related to the domestic currency depreciation.

Figure 1: Type of deposits in % share



Source: BNR, Statistics Department

With regards to deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) kept dominating other depositors with a great share of 46.5% end 2017Q1 followed by other non-financial corporations (25.5%), social security funds (16.1%), other financial institutions (8.0%) and public enterprises (3.9%).

Table 18: Deposits by category of depositors in % share

	2014				2015				2016				2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Other financial institutions	6.4	6.2	6.4	6.5	6.6	7.3	9.0	9.3	8.3	8.4	7.4	7.0	8.0
Social Security Funds	16.2	15.9	15.6	15.2	17.2	16.3	15.7	15.8	16.3	14.9	15.7	15.0	16.1
Public enterprises	2.4	2.4	2.3	2.8	4.0	3.8	4.7	4.2	5.0	4.2	3.6	3.8	3.9
Other non-financial corporations	27.4	31.6	28.5	29.8	27.2	28.8	27.7	25.9	25.9	26.0	25.0	26.4	25.5
Households and NPISH	47.5	44.0	47.2	45.7	44.9	43.7	42.9	44.9	44.5	46.6	48.2	47.8	46.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNR, Monetary Statistics Department

2.4.2 Banking System Liquidity Developments

During the first quarter of 2017, the banking system liquidity conditions were still tight in comparison with their level during the same quarter last year. Banks' most liquid assets fell by 13.2% standing at FRW 259.5 billion end 2017Q1 from FRW 298.8 billion as recorded end 2016Q1. This decline was mainly driven by the decline in outstanding T-bills following the shift in institutional investors, the latter have been preferring to invest in government securities instead of depositing in commercial banks due to attractive T-bills rates. In fact, non-banks' investments in T-bills have increased to FRW 71.4 billion in March 2017 from FRW 18.0 billion in March 2016. Moreover, modest net fiscal injection in couple with continued foreign exchange interventions during the quarter under review kept liquidity conditions subdued.

Table 19: Most liquid assets of commercial banks (FRW billion)

	2015				2016				2017	% change	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-6/ Q1-15	Q1-17/ Q1-16
T-bills	173.4	206.5	218.0	225.1	232.7	214.0	180.3	177.7	192.3	34.2	-17.4
Repo	46.0	78.5	15.0	26.5	15.0	34.0	0.0	30.5	21.0	-67.4	40.0
Excess reserves	20.8	20.8	29.1	17.1	20.7	31.7	20.5	24.5	14.8	-0.5	-28.5
Cash in vault	32.2	30.9	31.2	34.2	30.5	32.0	28.3	30.8	31.4	-5.3	3.0
Total	**283.0**	**336.7**	**293.3**	**302.9**	**298.8**	**311.7**	**229.2**	**263.6**	**259.5**	**5.6**	**-13.2**

Source: BNR, Monetary Policy & Research Department

2.4.3 Interest Rates Developments

During the period under review money market interest rates increased following fundamental liquidity conditions into banking system during the quarter under review. In fact, T-bills, repo and interbank interest rates soared respectively to 9.46%, 5.22% and 6.41% on average in the first quarter of 2017 against 6.88%, 3.53% and 4.97% during the same quarter in 2016.

Table 20: Interest rates developments (Quarterly average in %)

	2015	2016				2017	2017		
	Q4	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Key Repo Rate	6.50	6.50	6.50	6.50	6.42	6.25	6.25	6.25	6.25
Discount Rate	10.50	10.50	10.50	10.50	10.42	10.25	10.25	10.25	10.25
Repo rate	2.01	3.53	3.26	4.43	5.10	5.22	5.50	5.18	4.99
T-Bills Rate	5.69	6.88	7.10	7.93	8.79	9.46	9.38	9.58	9.42
Interbank Rate	3.54	4.97	5.81	6.17	6.61	6.41	6.82	6.33	6.10
Deposit Rate	7.87	7.70	8.22	8.04	7.70	7.48	7.39	7.22	7.84
Lending Rate	17.10	17.12	17.17	17.53	17.35	17.03	17.45	16.78	16.85
Spread	9.23	9.42	8.95	9.49	9.65	9.55	10.06	9.56	9.01

Source: BNR, Monetary Policy and Research Department

With regards to market rates, both lending rate and deposit rates decreased respectively to 17.01% and 7.48% on average in 2017Q1 from 17.12% and 7.70% in the same quarter of 2016.

2.4.4 Outlook for Liquidity conditions

The money supply (M3) is projected to grow moderately in 2017Q2 as it grew in 2017Q1, thus exerting less pressures on inflation. In 2017Q2, new authorized loans are projected not to go far away from its level of the same quarter in 2016 based on the observed trend over the two first moths of the second quarter of 2017. However, the liquidity in the banking sector is likely to improve due to net fiscal injection caused by significant government spending during the closing of fiscal year 2016/2017. Therefore, upward pressures on interest rates are projected to cool down due these developments in liquidity conditions.

2.4.5 Financial stability analysis

In 2017Q1, the financial sector, which is dominated by the banking sector, continues to remain resilient and stable, as evidenced by some performance indicators. In particular, 2017Q1 left the banking sector profitable and capitalized though shortened against the same quarter in 2016. The Herfindahl Hirschman index (HHI) is below 0.18 indicating that the market is moderately concentrated. This also indicates that our domestic financial market is a moderate competitive market. Indeed, this has been on account of new banks entrants to the market, expansion of banks outreach services as well as the implementation of prudent legal reforms.

The banking sector registered improved performance in 2017Q1. Assets increased by 11.3%, to FRW 2.4 trillion from FRW 2.2 trillion in 2016Q1, reflecting a slower pace compared to the last year's corresponding quarter which had grown by 17.1% (y-o-y). The lower growth in total assets of banks was mainly attributable to the decline by 15.2% in partaking of banks in government securities market as well as in banks investments and in other securities by 30.4%. In terms of sectoral loan distribution, the lower pace was mainly deterred by shortfall in financing of commerce, hotel and restaurants as well as in manufacturing by 18.4% and 39.7%, respectively dropping from growth of 39.2% and 69.4% in 2016Q1. Overall, this resulted from slower growth in economic activities. The banks investment in government securities with a share of 8.6% of the total assets fell by 15.2% compared to high growth of 34.5% recorded in 2016Q1.

Table 21: Banking sector performance (in billions FRW)

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	% change (YoY)
Total assets	2,183.5	2,278.1	2,247.3	2,377.9	2,430.6	11.3
Total deposits	1,445.2	1,507.1	1,437.1	1,530.3	1,579.8	9.3
Loans (on balance sheet)	1,289.9	1,322.6	1,391.6	1,403.1	1,468.4	13.8
Profit after tax	10.0	19.4	31.9	38.3	11.1	10.8
Government Securities	246.7	229.2	206.5	197.9	209.1	-15.2

Source: BNR, Financial Stability Directorate

Regarding the banks' liabilities, deposits[1] represent 79.5% of the total banks' liabilities by end 2017Q1 and are largely dominated by demand deposits (58.0% of the total deposits). However, the term deposits have recorded a high growth of 20.8% (y-o-y) up from 11.9% registered in 2016Q1, an indication of a good progress to the banks' growing capacity to finance loans on long-term maturities.

Concerning the soundness of the sector, the banks' assets quality remains sound as at end 2017Q1 despite a rise of non-performing loans ratio (NPLs) to 8.1% from 6.1% recorded in 2016Q1, translated by slowdown of the economic activities. The enhanced reclassification and provisioning of loans, as well as high cost of financial

[1] These deposits cover household deposits, legal entity deposits, deposits of Government and public enterprises.

services also contributed to downgrading of loan accounts by banks which impacted negatively on the quality of assets.

Table 22: Key Financial soundness indicators, (in %)

Indicator	2015				2016				2017
	Q1.	Q2.	Q3.	Q4.	Q1.	Q2.	Q3.	Q4.	Q1
Solvency ratio (total capital)	25.9	24.3	24.2	22.5	24.9	23.3	22.2	23.1	22.4
NPLs / Gross Loans	6.3	5.9	6.3	6.2	6.2	7.0	7.5	7.6	8.1
NPLS net of interests/Gross loans	4.8	4.9	5.1	5.2	5.2	5.9	6.0	5.6	6.2
Provisions / NPLs	52.3	51.5	48.3	46.2	46.0	42.7	43.4	42.7	44.5
Large Exposures / Gross Loans	19.3	22.5	20.9	23.4	22.6	25.6	29.9	31.7	33.1
Return on Average Assets	2.7	2.4	2.3	2.1	1.9	1.7	1.9	1.7	1.8
Return on Average Equity	14.0	13.1	12.7	11.2	9.8	9.2	10.0	8.8	10.0
Cost of deposits	3.1	3.1	3.1	3.2	3.7	3.6	3.6	3.7	3.6
Overhead to Income	43.6	46.0	46.2	46.8	49.1	49.9	48.9	49.9	49.0
Liquid assets/total deposits	46.0	49.5	46.8	45.8	43.9	42.8	42.3	41.7	42.6
Gross Loans / Total Deposits	86.6	84.2	87.0	89.5	92.2	90.9	100.5	95.2	97.0
Forex exposure/core capital (min/max 20%)	-5.5	-7.1	-7.9	-5.7	-6.7	-1.8	-6.3	-3.5	-4.4

Source: BNR, Financial Stability Directorate

The banks' quarterly level of return on average assets (ROA) and return on Equity (ROE) respectively stood at 1.8% and 10.0% compared to 1.9% and 9.8% recorded in 2016Q1. This is explained by overhead cost to income ratio which almost remained unchanged at 49.0% from 49.1% in 2016Q1. Ideally the nearly same improvement in sector's profitability is reflected by parallel year on year increase in expenses and incomes of banks by 8.7% and 8.9% respectively.

Indeed, the preparedness of banks to absorb unexpected shocks on their balance sheets before becoming insolvent declined below 2016Q1 level, however the resilience of the industry remains robust and above the regulatory requirement. Particularly the capital adequacy ratio (CAR) stood at 19.6% by end 2017Q1 below 22.3% in 2016Q1, but well above 15% which is the BNR's minimum regulatory requirement. This largely follows the outstanding level of capital investments in loans and other risk weighted assets by banks.

The banking liquidity ratio has been slightly above twice the minimum prudential liquidity ratio of 20%, though reduced from 43.9% in 2016Q1 to 42.6% in 2017Q1. This buffer provides the assurance of the depositors' protection as well as the stability of the banking system. However, the available liquidity indicators show that loans to deposits ratio in 2017Q1 registered 97.0% up from 92.2% in the same quarter in 2016.

2.4.6 Financial stability and outlook

The ended quarter left the banking sector profitable and capitalized though lowered compared to the preceding quarters. The future resilience of the banking system is ensured following regulatory reforms undertaken to strengthen on and off site supervisory capacities which are expected to reinforce compliance with prudential norms. Through supportive monetary policy stance, the BNR is committed to continue stimulating changes in aggregate demand through credit growth to private sector by banking system. In its regulatory mandate, BNR will continue to oversee the growth of the banking system against that of the real economy to curb the likely adverse effects on debt servicing capacities of economic actors.

III. INFLATION DEVELOPMENTS AND OULOOK

3.1 Current Inflation Developments

Headline inflation increased from 7.0% in 2016Q4 to 7.7% in 2017Q1, on average, in line with the expectations of the previous quarterly report. The increase was mostly driven by food prices and transport costs whose inflation increased from 15.4% to 16.6% and from 7.7% to 8.4% in the same period respectively. The increase was also reflected in imported and domestic inflation, which went up from 7.3% and 7.0% to 8.7% and 7.4% respectively.

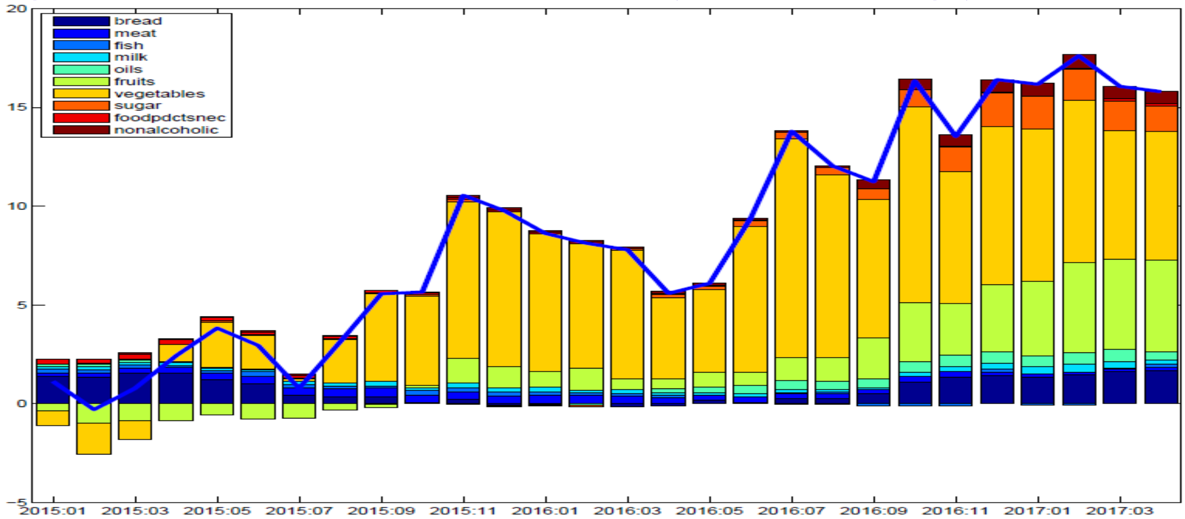
Table 23: Inflation developments for key items, in annual % change

	2016												2017		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Headline	4.5	4.4	4.6	4.7	4.6	5.5	6.9	6.4	5.8	7.4	6.4	7.3	7.4	8.1	**7.7**
Domestic	5.3	5.2	5.4	4.8	4.7	6.1	7.5	6.8	5.9	7.8	6.0	7.1	7.1	7.9	**7.3**
Food:	8.6	8.1	7.8	5.6	6.1	9.4	13.8	12.0	11.2	16.3	13.5	16.4	16.2	17.6	**16.1**
- Vegetables	20.8	18.4	18.4	11.2	11.3	20.2	30.8	24.6	18.8	26.7	18.2	22.2	21.7	23.1	**18.4**
- Bread & Cereals	-0.2	0.2	-0.8	-0.5	0.9	0.2	1.4	1.4	2.7	5.8	7.1	7.6	7.1	7.7	**8.6**
Alcoholic	9.9	8.1	9.4	10.6	8.6	8.7	5.1	0.1	0.2	-0.4	0.5	2.0	2.8	6.6	**7.5**
Education	0.1	1.7	1.7	1.7	1.7	1.7	1.7	1.7	2.3	2.3	2.3	2.3	0.9	-0.8	**-0.8**
Housing	3.0	2.8	3.0	3.9	2.9	2.9	2.8	3.0	0.9	1.3	1.0	1.4	1.4	2.1	**2.5**
Transport	4.1	5.1	4.8	7.6	7.4	7.0	8.7	8.6	8.7	7.9	7.5	7.7	8.3	8.3	**8.9**
Imported	1.9	2.3	2.1	4.2	4.1	3.9	5.2	5.5	5.6	6.3	7.7	7.9	8.4	8.8	**9.1**
Core	2.6	2.9	2.9	3.6	3.6	4.2	4.2	4.5	4.8	5.3	5.0	5.3	5.5	5.6	**5.4**
Energy	4.0	3.3	5.2	7.4	7.1	4.1	6.0	6.0	-0.3	0.7	1.7	2.6	1.2	4.6	**6.9**

Source: BNR, Monetary Policy & Research Department (2017)

Food inflation slightly picked up to16.6% in 2017Q1 from 15.4% in 2016Q4 following the hike in bread and cereals inflation from 6.9% to 7.8%. In addition, vegetables inflation also remained high albeit falling to 20.9% from 22.3%. The rising food prices stemmed from reduced food supply following the poor performance in the agricultural production in the season A 2016/17.

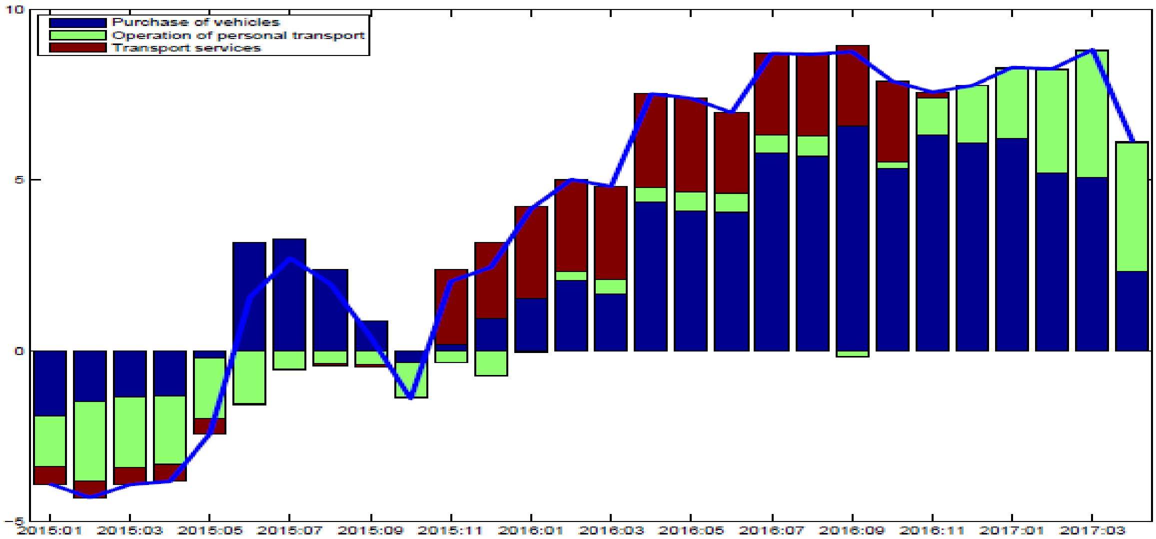
Figure11: Contribution to food inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

Though the effect of increased local bus fares since November 2015 disappeared in 2016Q4, transport inflation edged up to reach 8.4% in 2017Q1 from 7.7% in 2016Q4 on average. The rise in transport inflation came from the increase in local pump prices from 948FRW/ liter in November 2016 to 970FRW/liter and 1022FRW/liter in in January and March 2017 respectively. The inflation of vehicles spare parts also went up from 5.6% to 10.0% putting more pressures on overall transport inflation.

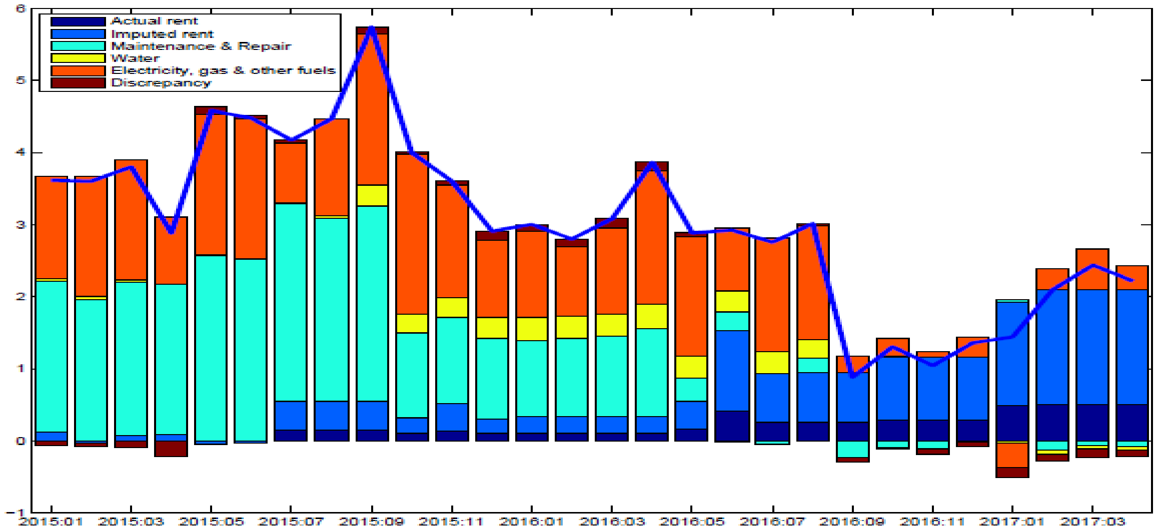
Figure12: Contribution to transport inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

In 2017Q1, other pressures were reflected in housing inflation which jumped from 1.2% to 2.0%, mostly resulting in housing rent. Although the inflation for charcoal and firewood slightly fell from 1.9% in 2016Q4 to 1.4% in 2017Q1, it has started to pile up on monthly basis from 2.0% in February to 3.3% in March 2017.

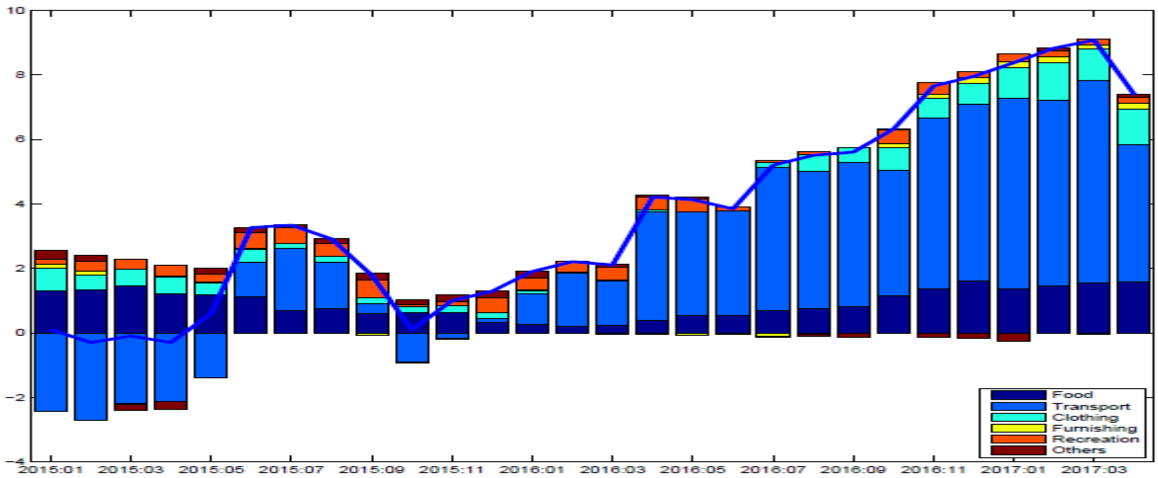
Figure13: Contribution to housing inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

The inflation pressures continue to come from the external side with imported inflation increasing from 7.3% in 2016Q4 to 8.7% in 2017Q1 and were mainly reflected in imported fuels and lubricants. Imported clothing also went up from 4.8% to 7.5% during the same period reflecting the ongoing effect of the increased tariffs on second hand clothes before it wears out. From the domestic side, domestic inflation surged from 7.0% to 7.4% in the same period mostly influenced by the trend in local food prices.

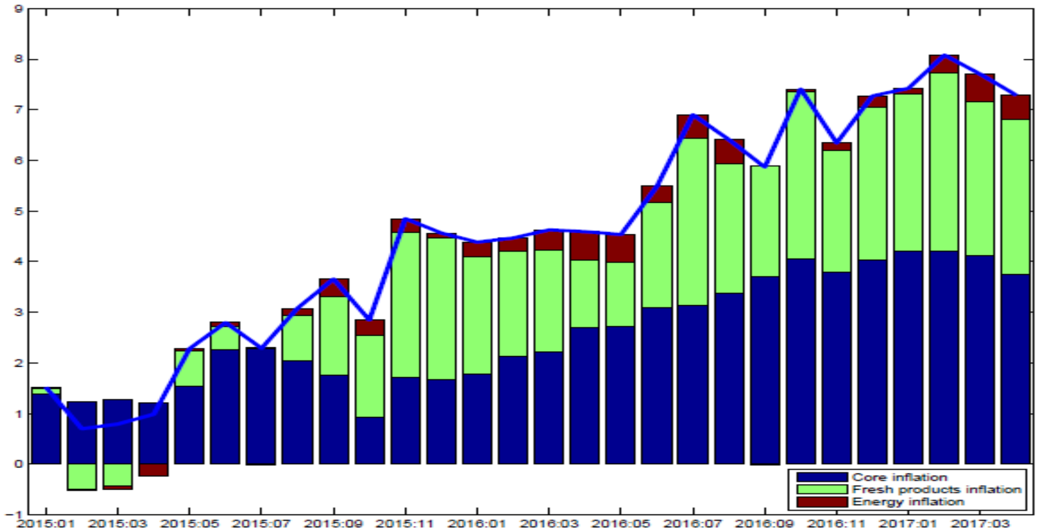
Figure14: Contribution to imported inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

Core inflation increased to 5.5% in 2017Q1 from 5.2% in the previous quarter, as a result of the continued effect of the FRW depreciation, the increase in external common tariffs for some imported products like oils and sugars as well as the increase in price of soft and alcoholic drinks produced by BRALIRWA. This increase outweighed some downward pressures that came from imported cars, clothing and footwear and furnishing in March 2017.

Figure15: Contribution of core and non-core to headline inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

IV. INFLATION OUTLOOK AND RISKS

4.1 Demand-side pressures

The Rwandan economy has remained resilient, with real GDP growing by 5.9% in 2016 after 8.9% in 2015. The Real GDP is projected to grow by 6.2% in 2017, sustained by the expected improvement in prices of metals and minerals, the ongoing government measures such as the reduction in electricity tariffs by at least 28%, the continued increase in cement production by CIMERWA, and Government projects such as rehabilitation and construction of roads. However, the output gap shows that domestic demand is still low, and thus, no inflationary pressures are expected from the domestic demand side in the second and third quarters of 2017.

4.2 Supply shocks

The outlook for agricultural commodities is still uncertain as these depend mostly on weather and other supply conditions. Inflation is expected to be above the medium-term objective of 5% during the first half of 2017 but to ease thereafter as the harvest season sets in. Indeed, the supply and demand side pressures shall continue to have offsetting effects. Some downward pressures will also come from cuts in tariffs, effective since July 2017.

4.3 Exchange rate developments

Looking ahead, the pressures on Rwandan Franc have started easing, thanks to the improvement in Rwanda's export receipts in line with the continued recovery in commodity prices at the international market. In addition, the import bill is reducing due to increased domestic production of goods such as cement that previously required a lot of forex to import, the Made-in-Rwanda initiative and the phasing out of some major construction projects. In line with this, the FRW depreciation is expected at around 3.8% by end December 2017 compared to 9.7% of the same period in 2016.

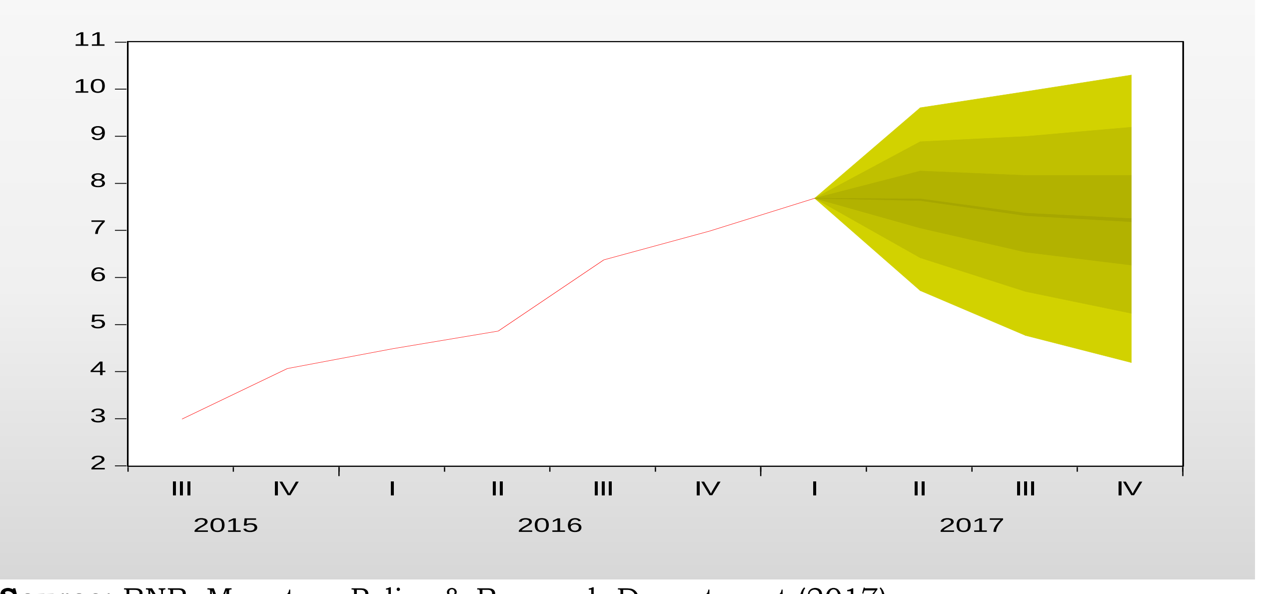
4.4 Global and regional inflationary pressures

In 2017Q2, global economic growth is expected to keep improving and broad based across countries and economic blocs. The commodity prices are likely to keep increasing for most commodities in 2017, and inflation is projected to continue increasing in the near term to 2.0% in 2017, from 0.8% in 2016. The outlook is pointing to continuous pressures on domestic markets, though weaker compared to the previous quarter.

4.5 Inflation forecasts

The main risks to the inflation outlook remain weather-dependent food harvests, imported inflation, and upward revision in the drinks produced by BRALIRWA as well as the increase in local pump prices. The above risks imply that the inflation outlook is tilted to the upside and is expected to range between 6.2% and 7.2% in 2017Q2 and between 5.5% and 6.5% in 2017Q3.

Figure 16: Inflation forecasts (fan chart)



Source: BNR, Monetary Policy & Research Department (2017)